New file

This Listing Statement is compiled by the Exchange from documents filed by the Company in making application for listing. It is issued for the information of members, member firms and member corporations of the Exchange. It is not and is not to be construed as a prospectus. The Exchange has received no consideration in connection with the issue of this Listing Statement other than the customary listing fee. The documents referred to above are open for inspection at the general office of the Exchange.

LISTING STATEMENT No. 2187

LISTED FEBRUARY 11, 1965
14,417,681 common shares of $3.00 par value
Ticker abbreviation "AV"
Dial ticker number 1700
Post section ~~1.1~~ 8.5

THE TORONTO STOCK EXCHANGE

LISTING STATEMENT

AVCO CORPORATION

Incorporated under the General Corporation Law of the State of Delaware on March 1, 1929

CAPITAL SECURITIES AS AT NOVEMBER 30, 1964

	AUTHORIZED	OUTSTANDING	TO BE LISTED
Common Stock, par value $3.00 per share	15,000,000	10,902,572*	14,417,681

*These shares were held by 81,807 stockholders of record as of October 30, 1964.

December 2, 1964

APPLICATION

AVCO CORPORATION (hereinafter called "Avco") hereby makes application for the listing on The Toronto Stock Exchange of an aggregate of 14,417,681 shares of its Common Stock, par value $3.00 per share, of which (*a*) 10,902,572 have been issued and are outstanding, (*b*) 431,600 have been issued and are held in Avco's treasury, (*c*) 271,683 have been reserved for issuance upon the exercise of employee stock options, (*d*) 374,982 have been reserved for issuance upon conversion of Avco's 5% Convertible Subordinated Debentures due February 1, 1979, and (*e*) 2,436,844 have been reserved for issuance in exchange for certain outstanding shares of Delta Acceptance Corporation Limited. Avco's Prospectus, which was filed with the United States Securities and Exchange Commission on October 30, 1964, is attached to this application and is hereby made a part thereof.

HISTORY AND BUSINESS

Reference is made to pages 16 - 28 of the attached Prospectus.

CAPITAL CHANGES

Pursuant to its original Certificate of Incorporation, Avco was authorized to issue 10,000,000 shares of Common Stock having no par value. A summary of the changes in Avco's authorized capitalization since the date of its incorporation is as follows:

DATE	TOTAL SHARES AUTHORIZED
May 5, 1930	5,000,000 Common (no par value)
May 11, 1932	5,000,000 Common ($5.00 par value)
June 29, 1935	5,000,000 Common ($3.00 par value)
February 17, 1941	7,500,000 Common ($3.00 par value)
October 18, 1945	10,000,000 Common ($3.00 par value)
	500,000 Preferred (no par value)*
November 15, 1950	15,000,000 Common ($3.00 par value)

*See below.

In 1945, Avco issued 300,000 shares of $2.25 Cumulative Convertible Preferred Stock, having no par value. All of such shares were retired without reissuance over the period from 1945 through 1959, and, therefore, only 200,000 shares of Preferred Stock are authorized to be issued by Avco at the present time.

SHARES ISSUED DURING PAST TEN YEARS

The following tabulation shows the number of shares of Common Stock of Avco outstanding as of November 30 (the end of Avco's fiscal year) in each year beginning with 1954. The increase in the number of outstanding shares over such period is due entirely to exercise of employee stock options, conversion of Avco's $2.25 Cumulative Convertible Preferred Stock referred to above, and conversion of Avco's 5% Convertible Subordinated Debentures due February 1, 1979.

FISCAL YEAR	SHARES
1954	8,992,585
1955	9,065,754
1956	9,066,046
1957	9,075,846
1958	9,222,379
1959	10,249,910
1960	10,316,115
1961	10,818,010
1962	11,073,002
1963	11,279,413
1964	11,334,172

STOCK PROVISIONS AND VOTING POWERS

Reference is made to pages 22 - 23 of the attached Prospectus.

DIVIDEND RECORD

Cash dividends have been paid by Avco on its Common Stock during the past ten years as set forth below. No stock dividends have been paid during such period by Avco.

FISCAL YEAR	ANNUAL RATE	AMOUNT
1955	$0.20	$ 1,797,851
1956	—	—
1957	0.10	907,250
1958	0.40	3,643,547
1959	0.40	4,023,074
1960	0.50	5,151,504
1961	0.575	6,030,615
1962	0.675	7,378,816
1963	0.80	8,958,315
1964	1.00	11,098,980

PROPERTIES

Reference is made to pages 21 - 22 of the attached Prospectus.

SUBSIDIARIES

The accounts of the subsidiaries listed below are included in the consolidated financial statements of Avco and its subsidiaries set forth in the attached Prospectus. Certain subsidiaries, the accounts of which are included in such consolidated financial statements, and certain 50% owned persons and another subsidiary (formed after June 30, 1964) not so included, have not been named below since such subsidiaries and 50% owned persons, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

NAME OF SUBSIDIARY	JURISDICTION OF ORGANIZATION	PERCENTAGE OF VOTING SECURITIES OWNED
Crosley Broadcasting Corporation	Ohio	100%
Avco Distributing Corporation	Ohio	100%
Avco of Canada, Limited	Canada	100%
Moffats, Limited	Ontario	100% (1)

(1) Owned by Avco of Canada, Limited.

Reference is made to pages 16 - 22 of the attached Prospectus for further information concerning Avco's subsidiaries.

PROSPECTUS

Avco

CORPORATION

2,868,444 Shares of Common Stock

(par value of $3 per share)

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The 2,868,444 shares of Common Stock of Avco Corporation (hereinafter sometimes referred to as "Avco") being offered as referred to herein are to be issued only in exchange for shares of Delta Acceptance Corporation Limited (hereinafter sometimes referred to as "Delta") in the ratio of one share of Common Stock of Avco for each outstanding Common Share of Delta, $7\frac{1}{2}$ shares of Common Stock of Avco for each outstanding $5\frac{1}{2}\%$ Cumulative Redeemable Convertible Sinking Fund Second Preference Share Series A (hereinafter referred to as the "Series A Convertible Shares") of Delta, and 5 shares of Common Stock of Avco for each outstanding $5\frac{1}{2}\%$ Cumulative Redeemable Convertible Second Preference Share Series B (hereinafter referred to as the "Series B Convertible Shares") of Delta, and upon the terms and conditions set forth under the heading "Purpose of Issue" in this Prospectus.

Tender of the Delta shares is to be made by delivering such shares to The Canada Trust Company, as Exchange Agent, at its office at 230 Portage Avenue, Winnipeg 1, Manitoba, Canada, on or before December 11, 1964, when the exchange period is due to expire. Reference is made to the heading "Purpose of Issue—Comparative Market Prices" in this Prospectus for information as to the market prices of Avco's Common Stock and Delta's Common and Series B Convertible Shares on the New York and Toronto Stock Exchanges and Avco's purchases since January 1964 of shares of its Common Stock on the New York Stock Exchange.

The expenses of Avco in connection with the Exchange Offer are estimated to be approximately $1,331,000, in the event the proposed exchange of shares becomes effective. Certain shareholders of Delta have agreed with Avco to pay various other expenses, including the fees and expenses of the Exchange Agent, to be incurred in connection with these transactions.

The date of this Prospectus is October 30, 1964

No dealer, salesman or any other person has been authorized to give any information or to make any representations, other than those contained in this Prospectus, in connection with the offering referred to in this Prospectus, and, if given or made, such information or representations must not be relied upon as having been authorized by Avco Corporation. This Prospectus does not constitute an offer by Avco to sell its securities in any state to any person to whom it is unlawful for Avco to make such offer in such state.

THE REGISTRATION STATEMENT

Avco Corporation has filed with the Securities and Exchange Commission, Washington, D. C., a Registration Statement (hereinafter, together with all amendments thereto, referred to as the "Registration Statement") under the Securities Act of 1933, as amended, with respect to the Common Stock referred to herein. This Prospectus does not contain all of the information set forth in the Registration Statement, certain parts of which are omitted in accordance with the rules and regulations of the Commission. For further information pertaining to such securities and to Avco, and to Delta Acceptance Corporation Limited, reference is made to the Registration Statement, including the financial schedules and exhibits filed as a part thereof.

TABLE OF CONTENTS

The information contained in this Prospectus relating to Delta Acceptance Corporation Limited has been prepared from information furnished or made available for inclusion herein by the management of Delta. Unless otherwise indicated, all financial information presented herein is expressed in United States dollars.

PURPOSE OF ISSUE

Exchange Offer

Avco Corporation is offering to the holders of the Common and Series A and B Convertible Shares of Delta Acceptance Corporation Limited, by means of a tender letter dated this date (the "Exchange Offer"), an aggregate of not more than 2,868,444 shares of its Common Stock, par value $3 per share, in exchange for outstanding shares of Delta in the following ratios:

(a) One share of Avco Common Stock for each outstanding Common Share of Delta;

(b) 7½ shares of Avco Common Stock for each outstanding Series A Convertible Share of Delta; and

(c) 5 shares of Avco Common Stock for each outstanding Series B Convertible Share of Delta.

Delta presently has issued and outstanding 2,162,781 Common Shares, 50,000 Series A Convertible Shares (which are convertible into 375,000 Common Shares), and 50,000 Series B Convertible Shares (which are convertible into 250,000 Common Shares). In addition, there are warrants presently outstanding for the purchase of 80,663 Common Shares of Delta. Accordingly, Avco will be exchanging the maximum of 2,868,444 shares of its Common Stock only if each holder of Delta warrants exercises his right to acquire Delta Common Shares in a timely manner and each holder of Delta Common Shares, as well as each holder of Series A and B Convertible Shares of Delta, accepts Avco's offer as to such shares within the period provided therefor. No offer is being made by Avco with respect to any series of Delta's outstanding First Preference Shares. (See the heading "Certain Financial and Accounting Information—Debt and Capitalization of Delta" below for further information with respect to Delta's capitalization.)

The shares of Avco's Common Stock which are to be exchanged pursuant to the Exchange Offer will be validly issued, fully-paid and nonassessable. (See the heading "History and Business of Avco—Common Stock" below for further information with respect to such Common Stock.)

The exchange period provided for by the Exchange Offer will expire on December 11, 1964, unless such period is extended by Avco giving notice to such effect to the Exchange Agent, which is not presently contemplated. Avco has agreed, however, that if the Exchange Offer becomes effective in accordance with its terms, it will, subject to certain legal conditions having first been met, make subsequent offers after 1965 to exchange shares of its Common Stock for Series A and B Convertible Shares of Delta in the same ratios referred to above at periodic intervals until October 15, 1970 and December 16, 1968, respectively, such being the expiration dates of the existing rights of the holders of the Series A and B Convertible Shares to convert such shares into Delta Common Shares. An adjustment, if and to the extent determined by the Board of Directors of Avco in its sole discretion to be equitable, would be made in the number of shares of Avco Common Stock to be offered to the holders of Series A or B Convertible Shares of Delta for exchange pursuant to any such subsequent offer in the event of any subdivision or combination of Avco's outstanding shares or any recapitalization or similar change affecting such Common Stock prior to the date thereof.

The Exchange Offer is subject to the express condition, in addition to the other conditions referred to below under the heading "Conditions", that Delta shareholders possessing at least 80% of the total combined voting power of all classes of Delta shares (including the additional voting power of the Common Shares which would be issuable upon conversion of all outstanding Series A and B Convertible Shares) shall have tendered their shares for exchange prior to the expiration of the

exchange period. An aggregate of 2,290,031 Delta shares of all classes were outstanding as of June 30, 1964, and, as mentioned below under the heading "History and Business of Delta—Common Shares", each such share is entitled to one vote. For purposes of calculating the total combined voting power referred to above, if all outstanding Series A and B Convertible Shares had been converted into Common Shares as of June 30, 1964, an additional 525,000 Delta shares would have been outstanding on such date, each entitled to one vote.

Acceptance

Delta's shareholders may accept Avco's Exchange Offer by depositing with The Canada Trust Company, which is acting as Exchange Agent in connection with these transactions, at its office at 230 Portage Avenue, Winnipeg 1, Manitoba, Canada, prior to the close of business on December 11, 1964, the certificates representing the Delta shares which they wish to exchange, accompanied by duly completed and executed Letters of Acceptance and Transmittal in the forms supplied to them for such purpose by Avco.

No fractional share of Avco stock (or cash or other consideration in lieu thereof) will be issued or paid by Avco in the case of any exchange pursuant to the Exchange Offer, and the Exchange Agent has been instructed to accept tenders of only such Delta shares as are exchangeable for full shares of Avco stock.

In the event that shares of Delta are tendered to the Exchange Agent pursuant to the Exchange Offer after the expiration of the exchange period, Avco may, but is not obligated to, accept such shares for exchange in the same manner as if they had been duly tendered during such period.

Conditions

In addition to the requirement that Avco receive the acceptance of holders of the requisite percentage of Delta shares referred to above under the heading "Exchange Offer", Avco is not obligated to consummate the exchange of its Common Stock as outlined below unless it is satisfied that Delta's organization, existence, business operations, capitalization and debt structure, and that of its subsidiaries, are as theretofore represented to Avco. Favorable opinions of counsel covering certain of such matters and other related matters (such as the approval of the directors and, to the extent required, the shareholders and lenders of each company, the due issuance, stock exchange listing and appropriate registration or qualification of Avco's Common Stock, and any pending litigation affecting the transaction) must also be exchanged between Avco and certain of Delta's shareholders.

Effectiveness

Promptly after the expiration of the exchange period, or on such earlier date (after December 1, 1964) as Avco shall elect, if the conditions referred to above have been satisfied, Avco will give written notice to the Exchange Agent of the effectiveness of the Exchange Offer. Thereupon the Exchange Agent will forthwith arrange to deliver or mail certificates evidencing the number of shares of Avco Common Stock to which each Delta shareholder who accepts the Exchange Offer is entitled as directed in the executed Letters of Acceptance and Transmittal. If the conditions to the Exchange Offer have not been satisfied prior to the expiration of the exchange period, the offer will terminate and all executed Letters of Acceptance and Transmittal and share certificates deposited with the Exchange Agent will be returned within 30 days after the expiration of the exchange period to the respective Delta shareholders at their addresses specified in such letters.

Common shareholders who do not accept the Exchange Offer to them will continue as minority holders of such shares (if the exchange is duly consummated), with most of Delta's share capital being owned by Avco or one of its subsidiaries. There are no rights of appraisal or equivalent dissenting rights with respect to this exchange.

Expenses

Avco estimates that it will incur maximum aggregate expenses, assuming the Exchange Offer becomes effective as mentioned above, of approximately $1,331,000 in effectuating the exchange of shares pursuant to such offer. This figure includes the maximum aggregate compensation referred to below which is to be paid to Lehman Brothers, 1 William Street, New York, New York, for services rendered to Avco as a finder and a financial advisor in connection with the exchange transaction. Other expenses include registration and listing fees, federal stamp taxes, and legal, accounting and printing fees and expenses.

In the agreement between Avco and certain Delta shareholders referred to under the heading "Business Reasons" below, Avco agreed to pay any fees or commissions due to Lehman Brothers in connection with this transaction. Pursuant to such agreement, Avco will compensate Lehman Brothers, if the Exchange Offer becomes effective, in an amount equal to 50 cents for each share of Avco Common Stock exchanged for those Common and Series A and B Convertible Shares of Delta which are tendered for exchange prior to the expiration date of the exchange period, provided that the maximum aggregate compensation to be so paid shall not exceed $1,000,000.

Certain Delta shareholders have agreed with Avco to pay some of the expenses incidental to these transactions, including the fees and expenses of the Exchange Agent and stock transfer taxes, if any, which may be payable solely by reason of the exchange of Delta shares. There is no agreement obligating Avco to pay any expenses incurred by shareholders of Delta in connection with the exchange.

Business Reasons

The Exchange Offer is being made pursuant to a Letter Agreement, dated July 14, 1964 (and effective July 20, 1964), as amended effective September 21, 1964, which was entered into between Avco and certain Delta shareholders after extensive detailed negotiations. The exchange ratios and other terms of the offer were determined by arm's-length bargaining between such parties, there being no present affiliation between the two companies (other than that arising from the purchase by Avco of Delta's notes referred to below), and no director or officer of either company being a director or officer of the other company or any of its subsidiaries.

The exchange ratios were approved by the parties after lengthy consideration of various relevant factors, including the market values of the respective common stocks of the companies (see the heading "Comparative Market Prices" below), each company's prospects for growth, assets, earnings and dividends, and the business advantages which are expected to accrue to both companies.

During the past five years, between 55% and 75% of Avco's sales has been dependent upon the defense and space programs of the United States Government. (See the heading "History and Business of Avco—General" below.) In order to reduce its dependence upon the continuation of such government programs, Avco has been actively investigating expansion into various fields by acquisition or direct entry, and among the possibilities explored has been the financial service field. Since Avco has a substantial cash position and extensive unused sources of credit, its management considers that this field is a fruitful area for such expansion, and it could serve to complement certain of Avco's activities with respect to consumer products. (See the heading "History and Business of Avco—Manufacturing Operations" below.) Delta is believed by Avco to constitute an excellent vehicle for entering this financial area.

The proposed exchange of shares is also believed to be advantageous from Delta's point of view since it would give Delta a source for meeting future capital needs and would add credit strength which should make it possible for Delta to finance its broad expansion program at more favorable interest rates. (See the heading "History and Business of Delta" below.) In this connection, Avco has purchased $2,000,000 principal amount of Delta's 5½% subordinated notes and $1,000,000 principal amount of Delta's 5⅝% junior subordinated notes, each such note maturing in less than 3 years.

Future Operations of Delta; Management Changes

If the Exchange Offer becomes effective and Avco exchanges its stock for Delta shares in accordance with its terms, Delta will become a subsidiary of either Avco or one of Avco's existing subsidiaries. It is not contemplated that there will be any major change in the present organizational structure, personnel or general operating methods of Delta.

Upon the consummation of such exchange, Richard W. Yantis, the President and a director of Delta, and John R. Gosnell and Frederick W. P. Jones, each a director of Delta, are expected to be elected to the Board of Directors of Avco by the present members of such Board, to hold office for the same term as the present Avco directors. Arrangements will also be made for the election of such persons as Avco shall designate to the Board of Directors of Delta.

Mr. Yantis has been President of Delta since 1956. Mr. Gosnell is Vice President of Massachusetts Protective Association Inc., and has been an officer of that insurance company since 1951, while Mr. Jones has been Professor of Business Administration at the University of Western Ontario since 1953. As of July 28, 1964, Messrs. Yantis, Gosnell and Jones beneficially owned no shares of Avco Common Stock or Series B Convertible Shares of Delta, but did beneficially own Common and Series A Convertible Shares of Delta as follows:

	Common Shares	Series A Shares
Richard W. Yantis	42,825*	1,000
John R. Gosnell	35,674	—
Frederick W. P. Jones	4,953	—

* As of the above date, Mr. Yantis held options to acquire an aggregate of 28,750 Common Shares of Delta, exercisable at prices ranging from $9.87 to $17.48 per share over periods ultimately expiring on December 31, 1969.

During 1963, Mr. Yantis, as President, received an aggregate direct remuneration from Delta and its subsidiaries of $60,000 (Canadian), and since January 1964 his compensation has been at an annual rate of $75,000 (Canadian). The estimated amount of annual benefits which would be received by Mr. Yantis under Delta's contributory pension plan upon retirement at age 65 and assuming no change in his present rate of compensation is $17,000 (Canadian). In March 1964, Mr. Yantis borrowed $61,242 from Delta for personal reasons. This indebtedness bore no interest and has since been repaid.

Delta has entered into an employment agreement with Mr. Yantis, contingent upon the exchange of shares becoming effective, providing for his employment in an executive capacity until December 31, 1968, at an annual compensation of not less than $75,000 (Canadian). In addition, it is expected that Mr. Yantis will be elected a Vice President of Avco.

Approvals

The terms of the Exchange Offer were unanimously approved by the Board of Directors of Avco at a meeting held on June 26, 1964. In addition, each director of Delta owning Common or Series A or B Convertible Shares of that company has agreed with Avco to accept such offer with respect to all such shares owned or controlled by him and certain of them have undertaken to use their best efforts to obtain the tender of additional Delta shares subject to certain legal prerequisites having first been met. The aggregate number of shares of Delta covered by such agreements is 821,159 Common Shares, 7,450 Series A Convertible Shares and 5,330 Series B Convertible Shares, with an additional 1,022,120 Common Shares, 27,500 Series A Convertible Shares and 32,925 Series B Convertible Shares being covered by such undertakings.

At meetings held on July 24, 1964, the holders of each class of Delta's shares approved the adoption of amendments to Delta's charter for the purpose of expediting effectuation of the proposed exchange of shares, and on October 29, 1964, the holders of Avco's Common Stock voted in favor of the Exchange Offer at a special meeting of stockholders called to consider such matter.

Tax Consequences

Avco has obtained a ruling from the United States Treasury Department to the effect that if Delta shareholders possessing at least 80% of the total combined voting power of all classes of Delta shares (including the additional voting power of the Common Shares which would be issuable upon conversion of all outstanding Series A and B Convertible Shares) tender such shares for exchange pursuant to the Exchange Offer prior to the expiration of the exchange period, such exchange will qualify as a corporate reorganization falling within the provisions of Section 368(a)(1)(B) of the Internal Revenue Code of 1954, and that, as a result, the exchange of such shares will not result in the recognition of any taxable gain or deductible loss under existing United States income tax laws. Such ruling does not apply to any Delta shares (including shares covered by any subsequent offer made by Avco to the holders of the Series A and B Convertible Shares of Delta as referred to under the heading "Exchange Offer" above) which are tendered for exchange after the expiration of the exchange period, and, therefore, any exchange of such shares may be a taxable transaction under such laws.

Canadian counsel for Avco have informed it that in their opinion the proposed exchange will not result in any gain arising therefrom being subjected to tax under present Canadian tax laws unless such gain constitutes profit from a business of the person receiving Avco Common Stock, within the meaning of such laws.

Accounting Treatment

Upon the exchange of shares becoming effective, Avco's investment in Delta shares will be reflected in the accounts of Avco or one of its existing subsidiaries at the market value of the shares of Avco Common Stock issued in exchange for Delta shares. Assuming that all of the 2,868,444 Avco shares covered by the Exchange Offer were so issued, the consolidated financial statements of Avco and its subsidiaries would include an investment in Delta of $62,747,213, based on the closing price of Avco's Common Stock on the New York Stock Exchange on July 20, 1964, the effective date of the Letter Agreement referred to under the heading "Business Reasons" above. Further consideration may be given by the management of Avco to the appropriate market value to be used for such stock. The book value, expressed in United States dollars, at June 30, 1964, of the consolidated net assets of Delta (including intangible assets in Delta's accounts) applicable to the Common and Series A and B Convertible Shares of Delta was $18,288,761.

It is not presently contemplated that the financial statements of Delta or any present or future subsidiary of Avco engaged in the financing business will be consolidated with the financial statements of Avco or any of its subsidiaries not engaged in the financing business. Avco's equity in the net earnings of such non-consolidated finance subsidiaries will be included in Avco's consolidated statements of earnings, and its investment in such subsidiaries will be carried at cost as determined above plus equity in net earnings, without amortization of the excess of cost over equity in Delta's consolidated net assets at the date of acquisition. (See the heading "Pro Forma Earnings Information" below for information with respect to the pro forma earnings of Avco.)

Pro Forma Earnings Information

Pro forma consolidated net earnings of Avco reflecting Delta's consolidated net income, the issuance of all the Avco shares covered by the Exchange Offer and the elimination of the dividends on Delta's Series A and B Convertible Shares is as follows:

	Year ended November 30, 1963	Seven months ended June 30, 1963	Seven months ended June 30, 1964
	(Stated in thousands of U. S. dollars)		
Consolidated net income of Delta(a)	$ 2,180	$ 1,278	$ 1,843
Less dividends on Delta's first preference shares(a)	210	115	139
	1,970	1,163	1,704
Consolidated net earnings of Avco	22,433	13,198	13,662
Pro forma net earnings applicable to Avco Common Stock	$24,403	$14,361	$15,366
Per share(b)	$1.73	$1.02	$1.10
Historical net earnings per share applicable to Avco Common Stock	$2.00	$1.18	$1.23

(a) Consolidated net income of Delta and dividends on its first preference shares shown above for the year ended November 30, 1963 are those for Delta's year ended December 31, 1963. The Delta amounts shown for the seven month periods ended June 30, 1963 and 1964 are those for Delta's six month periods ended those dates, increased by one-sixth for use with Avco's consolidated net earnings for the seven month periods.

(b) Based on the average number of Avco shares actually outstanding during the respective periods plus, in each case, the 2,868,444 shares covered by the Exchange Offer.

Stock Exchange Listings

The shares of Avco's Common Stock which are to be exchanged pursuant to the Exchange Offer will be duly listed on the New York Stock Exchange, subject to official notice of issuance, and it is also expected that such shares will be listed on the Toronto Stock Exchange. Delta's outstanding Common Shares have been fully listed on the Toronto Stock Exchange since November 1963, but may be delisted if the exchange is consummated.

Comparative Market Prices

The table below sets forth the high and low selling prices on the New York Stock Exchange for Avco's Common Stock for each quarterly period commencing January 1, 1963, as well as the high and low selling prices on the Toronto Stock Exchange for the Common and Series B Convertible Shares of Delta for each quarterly period commencing with the listing of such shares on such exchange in November 1963 and March 1964, respectively. Prior to their being listed, the Common and Series B Convertible Shares of Delta were not traded in any recognized market, and no accurate prices for such shares can readily be obtained for earlier periods. The Series A Convertible Shares of Delta have never been traded in any recognized market, and reliable price quotations cannot be obtained for such shares.

	Avco Common		Delta Common*		Delta Series B*	
	High	Low	High	Low	High	Low
1st quarter, 1963	26¼	23	N.A.		N.A.	
2nd quarter, 1963	29¼	24½	N.A.		N.A.	
3rd quarter, 1963	28⅞	23⅛	N.A.		N.A.	
4th quarter, 1963	24⅜	21⅞	18½	16⅜	N.A.	
1st quarter, 1964	24¼	20½	17¾	16¾	108	107¼
2nd quarter, 1964	23½	19⅞	23	16¾	120	107
3rd quarter, 1964	24½	21¼	25	21	125	115¾
October 1, 1964, to October 23, 1964	23	21½	23¾	23	119	117

* Stated in terms of Canadian dollars. (See Note 2 to Delta's consolidated financial statements for information as to the rate of exchange into U. S. dollars.)

The first public announcement of the proposed exchange of shares was made on June 15, 1964. Reference is made to the heading "Business Reasons" above for information with regard to the negotiations leading to this transaction.

In January 1964 Avco commenced buying shares of its Common Stock on the New York Stock Exchange in order to have stock available in the treasury for use in the event of possible acquisitions requiring the sale or exchange of Avco shares as well as for delivery upon the exercise of employee stock options and upon conversion of its Convertible Subordinated Debentures. During the period ended May 31, 1964, Avco purchased a total of 230,700 shares at prices ranging from $19.88 to $24.13 per share, and between June 1 and August 25, 1964, it bought an additional 185,900 shares at prices ranging from $21.25 to $23.50 per share. The aggregate volume of trading of Avco's Common Stock on the New York Stock Exchange during these two periods, as reported in the financial press, was 1,205,600 shares and 450,500 shares, respectively. Avco has not purchased any shares of its Common Stock since August 25, 1964.

Dividends

Avco has paid regular dividends on its Common Stock since 1957, and since January 1, 1964, such dividends have been at the quarterly rate of 25¢ per share. The amount of future dividends is necessarily dependent upon earnings, Avco's financial requirements and other factors. For a description of various restrictions imposed on the payment of such dividends by certain of Avco's debt instruments, see the heading "History and Business of Avco—Common Stock" below.

Delta has paid currently all regular quarterly dividends on its First and Second Preference Shares, but has never paid dividends on its Common Shares.

No Delta shareholder will receive any dividends paid or to be paid by Avco during Avco's fiscal year ending November 30, 1964, as a result of the exchange of shares referred to herein. However, to the extent that Delta shares have been tendered for exchange pursuant to the Exchange Offer prior to any record date established for the payment of dividends on Avco's Common Stock by its management after November 30, 1964, the shares of Common Stock of Avco which are issued in exchange therefor (provided that the Exchange Offer becomes effective in accordance with its terms) will be credited with the amount of dividends which would have been payable on such shares of Common Stock had they been outstanding on such record date.

In addition, the regular quarterly dividends payable by Delta to the holders of its Series A and B Convertible Shares on November 15, 1964, will be payable to such holders whether or not they have theretofore tendered their shares for exchange, since such exchange will not be made effective by Avco until after November 30, 1964.

Pending Canadian Legislation

On September 23, 1964, the Minister of Finance of Canada introduced Bill C-123 in the Canadian House of Commons. Among other things, this bill would restrict the non-resident ownership of shares of federally-incorporated Canadian life insurance companies, trust companies and loan companies. Neither Delta nor any of its subsidiaries is a life insurance company, trust company or loan company subject to the provisions of this proposed legislation, and Avco has been advised by its Canadian counsel that this bill would not affect the proposed exchange of Delta shares for shares of Avco's Common Stock in any way.

CERTAIN FINANCIAL AND ACCOUNTING INFORMATION

Consolidated Statement of Earnings of Avco

The following consolidated statement of earnings of Avco Corporation and its subsidiaries for the five years ended November 30, 1963, has been examined by Arthur Young & Company, certified public accountants, whose report with respect thereto appears elsewhere herein. The information for the seven months ended June 30, 1963 and June 30, 1964 is unaudited but includes all adjustments (consisting only of normal recurring accruals) which Avco considers necessary for a fair presentation of the results for those periods. The statement should be read in conjunction with the other financial statements of Avco and its subsidiaries included elsewhere herein. Results for interim periods are not necessarily indicative of results for the entire year.

	Year ended November 30,					Seven Months ended June 30, (unaudited)	
	1959	1960	1961	1962	1963	1963	1964
	(Stated in thousands of dollars)						
Net sales	$306,048	$322,745	$323,142	$414,280	$514,132	$293,357	$255,461
Other income—net	769	719	989	679	555	267	656
	306,817	323,464	324,131	414,959	514,687	293,624	256,117
Costs and expenses:							
Cost of sales	257,101	271,202	264,850	337,390	424,545	240,633	203,109
Selling and administrative expenses	22,026	23,277	23,305	27,088	31,945	18,425	19,923
Depreciation	6,236	6,839	7,152	6,932	6,507	3,667	3,502
Interest on long term debt	1,558	1,635	1,612	1,262	1,069	630	537
Other interest	585	254	144	109	145	66	51
Extra compensation (a)	823	957	1,555	2,838	3,683	2,229	2,059
	288,329	304,164	298,618	375,619	467,894	265,650	229,181
Earnings before income taxes and nonrecurring income	18,488	19,300	25,513	39,340	46,793	27,974	26,936
Income taxes:							
U. S. federal	8,150	8,998	12,276	20,183	24,229	14,758	13,111
Canadian federal and provincial	750	280	255	367	131	18	163
	8,900	9,278	12,531	20,550	24,360	14,776	13,274
Earnings before nonrecurring income	9,588	10,022	12,982	18,790	22,433	13,198	13,662
Profit on sale of a television broadcasting property, less applicable U. S. federal income tax of $447 (b)	—	—	—	1,250	—	—	—
Net earnings	9,588	10,022	12,982	20,040	22,433	13,198	13,662
Dividends on preferred stock	57	—	—	—	—	—	—
Net earnings applicable to common stock	$ 9,531	$ 10,022	$ 12,982	$ 20,040	$ 22,433	$ 13,198	$ 13,662 (c)
Per share of common stock:							
Net earnings (d)	$ .95	$ .97	$1.24	$1.83 (b)	$2.00	$1.18	$1.23
Dividends (e)	.40	.50	.57½	.67½	.80	.60	.75

Notes to consolidated statement of earnings:

(a) Under a plan approved by stockholders, there is payable as extra compensation 10% of the amount by which consolidated manufacturing profit (as defined) exceeds 6% of consolidated manufacturing capital (as defined), both as determined by the Company's independent auditors.

(b) Profit on sale of a television broadcasting property less applicable U. S. federal income tax included in 1962 net earnings amounted to $.11 per share.

(c) See Note 3 to Avco's consolidated financial statements for a description of the change in the method of accounting for the investment tax credit.

(d) Earnings per share are based on the average number of shares outstanding during the respective periods.

(e) Dividends for the seven month periods represented three quarterly dividends in each case. For restrictions on payment of cash dividends see Note 6 to Avco's consolidated financial statements.

The decline in net sales during the seven months ended June 30, 1964, as contrasted with the net sales for the seven months ended June 30, 1963, was primarily attributable to the phasing out of a government electronics contract.

Consolidated Statement of Income of Delta

The following consolidated statement of income of Delta Acceptance Corporation Limited and its subsidiaries for the five years ended December 31, 1963, has been examined by Arthur Young, Clarkson, Gordon & Co., chartered accountants, whose report with respect thereto appears elsewhere herein. The information for the six months ended June 30, 1963 and June 30, 1964 is unaudited but includes all adjustments (consisting only of normal recurring accruals) which Delta considers necessary for a fair presentation of the results for those periods. The statement should be read in conjunction with the other financial statements of Delta and its subsidiaries included elsewhere herein. Results for interim periods are not necessarily indicative of results for the entire year.

	Year ended December 31,					Six months ended June 30, (unaudited)	
	1959	1960	1961	1962	1963	1963	1964
	(Stated in thousands of U. S. dollars)						
Revenues (a):							
Interest, discount and service charges earned	$ 5,090	$ 7,060	$ 9,265	$12,979	$20,956	$ 9,935	$14,379
Expenses:							
Interest including amortization of debt expenses	1,735	2,563	3,128	4,523	6,664	3,176	4,184
Allowance for losses on collection of contracts	576	842	1,429	1,761	2,148	950	1,468
Other operating expenses	2,196	2,740	3,804	5,034	8,221	3,845	5,692
	4,507	6,145	8,361	11,318	17,033	7,971	11,344
Income of finance companies before income taxes	583	915	904	1,661	3,923	1,964	3,035
Income taxes:							
U. S. federal and state	—	—	88	184	818	308	509
Canadian federal and provincial	275	474	379	648	1,145	674	1,042
	275	474	467	832	1,963	982	1,551
Net income of finance companies	308	441	437	829	1,960	982	1,484
Net income of insurance subsidiaries	—	7	30	152	220	113	96
Net income (b)	308	448	467	981	2,180	1,095	1,580
Dividends on preference shares	211	208	209	239	431	192	360
Net income applicable to common shares	$ 97	$ 240	$ 258	$ 742	$ 1,749	$ 903	$ 1,220
Per common share (b) (c)	$ .09	$ .17	$ .15	$ .42	$ .84	$ .44	$ .58

Notes to consolidated statement of income:

(a) The year 1963 and the six months ended June 30, 1963 and 1964 include the following revenues of subsidiaries acquired in 1963 in transactions treated as "purchases": year 1963—$2,643,000; six months 1963—$1,208,000; six months 1964—$1,755,000. Operations of subsidiaries acquired in 1963 in a transaction treated as a "pooling of interests" have been included in the respective periods in the consolidated statement of income.

(b) Exchange adjustments resulting from the depreciation of the Canadian dollar in relation to the U. S. dollar have been charged to retained earnings (deficit) in Delta's U. S. dollar financial statements as follows: 1960—$1,174,000 ($ .85 per share), 1961—$2,093,000 ($1.25 per share), 1962—$1,752,000 ($ .98 per share). See Note 2 to Delta's consolidated financial statements.

(c) Earnings per share are based on the average number of shares outstanding during the respective periods after reflecting retroactively the issuance of 391,585 shares in 1963 for the acquisition of all of the preference and common shares of Security Acceptance Corporation, treated as a "pooling of interests", and also after reflecting retroactively the issuance of 2 shares of Delta common for 1 in 1959 and 3 shares for 2 in 1963. No dividends have been paid on Delta's common shares.

Debt and Capitalization of Avco

The debt and capitalization of Avco and its subsidiaries as of June 30, 1964, were as follows:

	Outstanding
Long term debt (including $1,780,500 due within one year):	
Promissory notes due in annual installments until September 1, 1970, when balance is due—	
3½% ($1,000,000 due annually)	$ 9,000,000
3¾% ($ 500,000 due annually)	5,000,000
4½% ($ 170,000 due annually)	1,470,000
5% Convertible Subordinated Debentures maturing February 1, 1979	4,713,400
5% First Mortgage Sinking Fund Bonds, Series A, maturing November 1, 1966, payable in Canadian funds by Moffats, Limited ($110,500 due within one year)	415,897
Total long term debt	$ 20,599,297
Capital Stock:	
Preferred Stock (no par value):	
Authorized—200,000 shares	None
Common Stock ($3 par value):	
Authorized—15,000,000 shares	11,001,996 shs. (1) (2) (3)

(1) Excludes 313,300 treasury shares.

(2) An additional 286,069 shares were reserved for issuance pursuant to Avco's Stock Option Plan and 409,861 shares were reserved for issuance upon conversion of the 5% Convertible Subordinated Debentures at the conversion price of $11.50 per share.

(3) If all of the shares of Avco Common Stock covered by the Exchange Offer are exchanged pursuant thereto, an additional 2,868,444 shares will be outstanding.

Debt and Capitalization of Delta

The debt and capitalization of Delta and its subsidiaries as of June 30, 1964, were as follows:

	Outstanding (U. S. dollars)
Notes and debentures payable (including $106,969,925 due within one year):	
Senior notes payable	
Senior notes, short term series:	
Payable in United States funds—	
To banks (4¾%-5¾%)	$ 46,525,000
To others (3¼%-4⅝%)	23,855,000
	70,380,000
Payable in Canadian funds—	
To banks (5¾%)	19,702,500
To others (3½%-4¾%)	13,598,425
	33,300,925

	Outstanding (U. S. dollars)
Senior term notes:	
Payable in United States funds—	
6½% maturing $50,000 annually February 15, 1965 to 1970	$ 300,000
6½% Series D maturing $334,000 annually January 1, 1965 to 1975	3,664,000
6½% Series E maturing $300,000 semi-annually November 15 and May 15, 1964 to 1967	2,100,000
6⅜% Series F maturing $300,000 annually September 15, 1964 to 1971	2,400,000
6% Series G maturing $800,000 annually June 1, 1965 to 1973	7,200,000
6% Series H maturing $750,000 annually March 1, 1965 to 1974	7,500,000
5½% Series I maturing $1,250,000 annually March 1, 1966 to 1975	12,500,000
	35,664,000
Total senior notes payable	$139,344,925

Subordinated notes payable	
Payable in United States funds—	
6½% Series D maturing $250,000 annually June 1, 1965 to 1974	$ 2,500,000
6½% Series G maturing $160,000 annually August 1, 1967 to 1976	1,600,000
6¼% Series H maturing $170,000 annually March 15, 1968 to 1977	1,700,000
6% Series J maturing $225,000 annually March 1, 1966 to 1975	2,250,000
6% Series L maturing September 1, 1965	1,000,000
5½% Series M maturing $460,000 annually April 1, 1967 to 1976	4,600,000
	13,650,000
Payable in Canadian funds—	
6% maturing $127,188 annually August 1, 1966 to 1969	508,750
6¼% Series I maturing $27,750 annually March 15, 1968 to 1977	277,500
6⅛% Series K maturing $46,250 annually June 1, 1969 to 1978	462,500
	1,248,750
Total subordinated notes payable	$ 14,898,750

	Outstanding (U. S. dollars)
Junior subordinated notes payable	
Payable in United States funds—	
6½% Series B maturing $55,000 annually September 15, 1964 to 1970	$ 385,000
6½% Series D due December 1, 1969	1,200,000
6¼% Series E maturing $150,000 April 15, 1965 and $300,000 annually April 15, 1966 to 1969 and $150,000 April 15, 1970	1,500,000
6¾% Series F maturing $55,000 annually March 15, 1968 to 1977	550,000
6⅜% Series H maturing $150,000 annually March 1, 1966 to 1975	1,500,000
6% Series J maturing September 1, 1965	1,000,000
6% Series K maturing $280,000 annually April 1, 1967 to 1976	2,800,000
	8,935,000
Payable in Canadian funds—	
6½% maturing $104,063 annually August 1, 1966 to 1969	416,250
6¾% Series G maturing $37,000 annually March 15, 1968 to 1977	370,000
6⅜% Series I maturing $46,250 annually June 1, 1969 to 1978	462,500
	1,248,750
Total junior subordinated notes	$ 10,183,750
Sinking fund debentures payable	
Empire Acceptance Corporation Limited (a subsidiary of Consolidated Finance Co. Ltd.)—	
5½% convertible redeemable sinking fund debentures Series "A" due March 1, 1968	$ 249,750
Deduct debentures purchased and held for sinking fund	98,975
	$ 150,775
Total notes and debentures payable	
In United States funds	$128,629,000
In Canadian funds	35,949,200
	$164,578,200

	Outstanding Shares
Preference shares:	
First preference shares	
($100 Canadian par value) issuable in series; authorized less redeemed—115,800 shares—	
Series A—6% cumulative sinking fund shares redeemable at $102.50 (Canadian) per share to May 15, 1965 and at decreasing amounts annually thereafter to May 15, 1969. (Minimum sinking fund requirements of $190,000 (Canadian) on October 15 in each year except the 1964 requirement which may be satisfied at any time on or prior to February 15, 1965)	13,200
Series B—5½% cumulative sinking fund shares. (Minimum sinking fund requirements of $115,000 (Canadian) on July 1 in each year commencing with 1969)	11,500
Series D—5½% cumulative shares redeemable after April 30, 1966 at $105.50 (Canadian) per share to April 30, 1967 and at decreasing amounts annually thereafter. (Purchase requirements of $200,000 (Canadian) in each year commencing with 1966, if shares are available at not more than par value)	50,000
Second preference shares	
($100 Canadian par value) issuable in series; authorized—100,000 shares—	
Series A—5½% cumulative convertible sinking fund shares. Each share is convertible into 7½ common shares on or before October 15, 1970. Redeemable on or after October 16, 1970 at par. (Minimum sinking fund requirements of $500,000 (Canadian) on August 15 in each year commencing with 1970)	50,000
Series B—5½% cumulative convertible shares. Each share is convertible into 5 common shares on or before December 16, 1968. Redeemable on or after December 17, 1968 at $105.50 (Canadian) per share until December 16, 1969 and at decreasing amounts annually thereafter. (Purchase requirements in each year commencing with 1969 of 4% of total shares outstanding at end of prior year, if shares are available at not more than par value)	50,000
Common shares (no par value):	
Authorized—4,500,000 shares	2,115,331(1)(2)

(1) Warrants were also outstanding as of June 30, 1964, to purchase 46,163 Common Shares at $4.06 per share on or prior to August 1, 1967, and 34,500 Common Shares at $9.87 per share on or prior to June 30, 1969.

(2) In addition to the 80,663 Common Shares reserved for issuance pursuant to the warrants referred to in (1) above, 83,950 Common Shares were reserved for issuance under outstanding employee stock options, and 625,000 Common Shares were reserved for issuance upon conversion of the Series A and B Second Preference Shares.

HISTORY AND BUSINESS OF AVCO

General

Avco was organized as The Aviation Corporation under the laws of the State of Delaware on March 1, 1929. Its name was changed to Avco Manufacturing Corporation on March 26, 1947, and to Avco Corporation on April 10, 1959. Avco maintains its principal executive offices at 750 Third Avenue, New York, New York.

During World War II, Avco and its subsidiaries and affiliates were one of the nation's major producers of defense materiel, principally aircraft and naval equipment. During the ten year period immediately following the war, Avco was engaged chiefly in the production and sale of a wide range of consumer appliance goods. In addition, it manufactured and sold specialized farm equipment, aircraft engines for military and executive aircraft, bomber fire-control systems, communications and radar equipment, tank engines, military ordnance items and airframe structures, household and industrial boilers and heaters, and precision parts for the aircraft and other industries. Its wholly-owned subsidiary, Crosley Broadcasting Corporation, which it acquired in 1946, continued in the business of radio and television broadcasting.

In 1956 Avco discontinued the major portion of its consumer goods business. It subsequently completed its withdrawal from this field, except for the manufacture under contract of metal office and household equipment for other manufacturers which distribute such products under their own name and except for the manufacture and sale of appliances by its wholly-owned Canadian subsidiary, Moffats, Limited, and by a British subsidiary, Moffats, Limited (U. K.).

At the present time the major portion of Avco's plants and facilities is devoted to research, development and production for government agencies through prime and subcontracts principally in the fields of space flight technology, re-entry vehicles for intercontinental ballistic missiles, electronics, aircraft engines, airframe structures, ordnance items and missile components.

Avco's government and commercial sales for the five fiscal years ended November 30, 1963, and the seven months ended June 30, 1963 and 1964, were as follows: (See the heading "Government Contracts" below for the status of renegotiation.)

	1959	1960	1961	1962	1963	1963 (7 mos.) (unaudited)	1964 (7 mos.) (unaudited)
	(Stated in thousands of dollars)						
Government:							
Research and development	$ 79,024	$ 73,152	$ 80,373	$ 87,325	$114,166	$ 53,145	$ 64,672
Aircraft engines and components; airframe components; ordnance and miscellaneous products .	28,111	46,114	52,641	93,307	121,863	71,231	68,954
Electronics and missile components	66,385	68,880	71,695	108,978	155,999	103,238	51,774
	173,520	188,146	204,709	289,610	392,028	227,614	185,400
Commercial products and broadcasting	132,528	134,599	118,433	124,670	122,104	65,743	70,061
Total	$306,048	$322,745	$323,142	$414,280	$514,132	$293,357	$255,461

Avco's backlog of all government orders and of commercial orders for aircraft engines and components and airframe components at the end of each of the past two fiscal years and at June 30, 1964, is set forth below. Included in the backlog of government orders are the extended amounts on letter contracts and other commitments, amounting to $29,447,000 for November 30, 1962, $67,958,000 for November 30, 1963, and $12,745,000 for June 30, 1964, for which definitive contracts had not been executed at such dates. Sales of Avco's other commercial products and services are generally made on

a spot, current or short-term basis, so that no significant backlog of unfilled orders for such products and services exists at any particular time. (See the heading "Government Contracts" below with respect to the termination rights of the government.)

	Nov. 30, 1962	Nov. 30, 1963	June 30, 1964
	(Stated in thousands of dollars)		
Government:			
Research and development	$ 49,490	$ 68,600	$ 57,247
Aircraft engines and components; airframe components; ordnance and miscellaneous	133,312	192,466	192,499
Electronics and missile components	172,495	89,872	44,106
Commercial:			
Aircraft engines and components; airframe components	9,881	10,893	11,642
Total	$365,178	$361,831	$305,494

Research and Development

Since 1955 Avco has actively engaged in basic scientific research in many areas, including space and marine technology, material sciences and magnetohydrodynamics. Research activities in the space field include general space flight technology, atmospheric entry and re-entry problems, anti-missile defense systems, optical tracking and communications systems using lasers, magnetohydrodynamic and electrothermal space propulsion systems, thrust chambers and nozzles for chemical fueled rocket motors, advanced metallurgy, and ceramics and plastics for high temperature applications. Avco is also developing instruments to measure radiation levels in space, star trackers for guidance of space vehicles, radiation shields for near-sun probes, and plastic foams for meteoroid shields and expandable space structures.

Other research and development work, principally under government contracts, includes target decoys and discrimination studies for the Nike-Zeus Anti-ICBM Program and work on advanced radar, super-conducting magnets, gas turbine engines, multi-fuel air-cooled engines, infra-red search and detection systems, space and tactical communications systems, telemetry equipment, fusing devices, cryogenic systems, specialized laboratory equipment, medical instruments and radiation detectors. In addition, Avco is engaged in research and development in the field of magnetohydrodynamic power generation under a program sponsored by it and twelve public utility companies.

Avco is applying technologies developed in the course of missile and space work to marine research and development on such projects as power generation for navigational buoys, development of non-corrosive materials and structures, development of deep submergence vessels, and improvement of undersea communication and detection systems. A hydrofoil vehicle is being developed and tested under a government contract.

Avco's research activities are principally carried on by the Research and Advanced Development Division at the Avco Research Center located in Wilmington, Massachusetts, and at facilities located in Lowell and Lawrence, Massachusetts; by the Avco-Everett Research Laboratory located in Everett and Haverhill, Massachusetts; by the Tulsa Division located in Tulsa, Oklahoma; and at the Marine Electronics Office in New London, Connecticut. In addition, each operating division carries on its own product research and development. In connection with its research and development activities Avco has established a missile test installation at Cape Kennedy, Florida. Personnel at these locations now aggregate approximately 5,900, including scientific, engineering and supporting personnel who are assisted in special projects by approximately 70 consulting scientists from university faculties and private laboratories in the United States and abroad.

Under research and development contracts with the Department of Defense, the Government usually obtains an irrevocable, non-exclusive, royalty-free license to practice or cause to be practiced

by or for the Government throughout the world each invention conceived or first actually reduced to practice in the performance of the experimental, developmental or research work called for by the contract, and in some cases it obtains exclusive property rights in such inventions. Under research and development contracts with some other government agencies, such as the National Aeronautics and Space Administration, such inventions made in the performance of the contract become exclusive government property unless the agency determines otherwise. The Government also customarily obtains unlimited rights to duplicate, use and disclose any data required to be delivered under research and development contracts.

Manufacturing Operations

Aircraft Engines and Components; Airframe Components

Avco's Lycoming Stratford Division produces the T-53 gas turbine engine for helicopters and fixed wing aircraft and the more powerful T-55 for helicopters. Lycoming gas turbines are also being used in a number of developmental applications including turbo-prop aircraft, VTOL and STOL aircraft, and various marine and industrial applications. The Lycoming Williamsport Division produces piston-type engines for military and executive aircraft, helicopters and drones. Other Lycoming products include amphibious vehicles and mechanical constant speed drives for aircraft accessories. The Aerospace Structures Division of Avco produces tail and wing box beam assemblies for aircraft and other aluminum and stainless steel honeycomb structures.

Electronics and Missile Components

In the field of electronics, Avco produces for the Government mobile communications equipment, missile command destruct receivers, range safety receivers, satellite and command radio receivers, spare parts for mobile heightfinder radar systems and bomber fire-control systems, and other electronic defense equipment. These products, together with missile components, are manufactured by the Electronics Division, which also has a full service department that can provide technical services on a world-wide basis to install, maintain and support military and industrial electronic equipment. The Lycoming Stratford Division is producing complex re-entry vehicles and related ground support equipment for intercontinental ballistic missiles, rocket chambers for ballistic missiles and other missile components.

Ordnance; Miscellaneous Military Projects

Avco's Ordnance Division is engaged in research, development, production engineering, and production of classified ordnance items including special non-nuclear ammunition, special air-to-ground and surface-to-surface non-nuclear warheads, anti-armor and anti-personnel weapons, radiation, proximity and VT fuzes, and tactical weapons systems. In addition Avco, principally at its Lycoming Williamsport Division, manufactures precision metal and machined parts under subcontract for others in the aircraft and other industries. This Division is also developing and testing for the Government 4, 6 and 8 cylinder versions of an air-cooled multi-fuel engine of lightweight material having quick starting capabilities at very low temperatures.

Farm Equipment

The New Idea Division manufactures specialized farm equipment such as manure spreaders, corn pickers, snappers and shellers, hay conditioners, mowers, rakes, rotary cutters, dry chemical fertilizer spreaders, hydraulic loaders for farm and utility type tractors, portable elevators, farm wagons, bunk feeders, mechanized barn-cleaners, silo unloaders, and a Uni-System line of self-propelled, interchangeable, harvesting equipment. These products are sold by approximately 2,400 dealers throughout this country and Canada.

Consumer Products; Miscellaneous Contract Manufacturing

The Aerospace Structures Division has developed and is producing the Avcold container for shipping frozen foods between wholesale and retail outlets, and has contracted to produce metal office and

household equipment for other manufacturers. Avco also produces at its Research and Advanced Development Division specialized laboratory equipment, industrial coating systems and medical instrumentation, and manufactures household and commercial boilers and heaters and sewage treatment units at its Lycoming Williamsport Division.

Moffats, Limited manufactures and sells commercial and domestic gas and electric ranges, electric range heating elements, and gas-fired heating furnaces, and it also manufactures household laundry equipment under license from a major United States appliance manufacturer and sells such equipment in Canada under its own trade names. This subsidiary purchases for resale, either under its own or the vendor's trade names, coin operated dry cleaning equipment, refrigerators, space heaters, boilers, industrial gas heating equipment, commercial unit heaters, commercial gas cooking equipment and electric rotisserie grills for commercial use. The products of Moffats, Limited are sold by approximately 3,000 dealers throughout Canada.

International Operations

The New Idea Division has established a branch in the United Kingdom for the manufacture and sale of New Idea farm equipment, and a British subsidiary, Moffats, Limited (U. K.), is producing household ranges and other Moffats products at a newly constructed leased plant near Glasgow, Scotland. Licenses have been granted by Avco covering the manufacture and sale by foreign licensees of a variety of products.

Avco and Etablissements Henry Potez are engaged in discussions and have initiated certain steps which it is expected will result in the liquidation of Potez-Avco, S.A., an equally owned French company which was formed to manufacture and sell Lycoming reciprocating and gas turbine engines. An accurate estimate of the loss that may be incurred by Avco as a result of this liquidation can not be made until such liquidation has progressed further, but Avco does not believe that such loss will have a materially adverse effect on its earnings. Appropriate actions have been taken to continue and strengthen Avco's efforts to sell and service Lycoming reciprocating and gas turbine engines in the areas in which Potez-Avco, S.A. has been operating.

Broadcasting

Avco's wholly-owned subsidiary, Crosley Broadcasting Corporation, owns and operates AM radio station WLW in Cincinnati, Ohio, and four very high frequency (VHF) television stations, WLW-T in Cincinnati, WLW-D in Dayton, Ohio, WLW-C in Columbus, Ohio, and WLW-I in Indianapolis, Indiana. Crosley's television and radio broadcasting operations are subject to the jurisdiction of the Federal Communications Commission, as provided in the Federal Communications Act of 1934. This Act authorizes the Commission to grant radio and television broadcasting licenses upon determination that the "public convenience, interest or necessity" will be served thereby. The maximum term for which a broadcasting license may be granted is three years, with renewals for periods of not more than three years each upon considerations similar to those governing the granting of the original license. Under the present rules of the Commission, no company may own or control licenses for more than seven television broadcasting stations, of which no more than five may be VHF.

Crosley Broadcasting Corporation has recently received license renewals for each of its radio and television stations expiring July 31, 1967, in the case of station WLW-I, and September 30, 1967, in the case of each other station. The license renewals for stations WLW-T, WLW-D and WLW-C have, however, been granted without prejudice to whatever action the Federal Communications Commission may take as a result of the proceedings in FCC Docket No. 15415, a pending inquiry by the Commission into the joint ownership of CATV systems and television stations. (See the heading "CATV" below.)

CATV

Pursuant to an Agreement between Avco and Meredith Publishing Company, an equally owned company, Meredith-Avco, Inc., has recently been formed for the purpose of engaging in the community antenna television (CATV) business. Meredith-Avco holds a number of CATV franchises both

directly and through wholly-owned subsidiaries and through Florida TV Cable, Inc. which in turn is jointly owned by Meredith-Avco and the Jerrold Corporation. CATV systems in existence or under construction are located on the East Coast of Florida and in Alabama, Arkansas, Kentucky and Mississippi, but franchises have been obtained in other states, and it is anticipated that Meredith-Avco will continue to acquire CATV franchises and existing CATV systems in various parts of the country. The CATV business is a rapidly expanding one with many competitors in the field. Because of the cost of the necessary installations, as well as other start-up costs, it is not expected that Meredith-Avco will operate at a profitable level for several years.

On April 16, 1964, the Federal Communications Commission released, under Docket No. 15415, a Notice of Inquiry into the joint control of television stations and CATV systems. Comment was invited on the question of whether problems pertinent to the public interest might arise out of such joint control, regardless of whether such jointly-controlled television stations and CATV systems serve the same area, but the Commission has not to date made any policy determinations. Avco does not believe that the inquiry presents any immediate threat to its television and CATV operations, but determinations made by the Commission as a result of the inquiry may require future changes in such operations.

Government Contracts

Avco's contracts with the Government may be terminated by the Government at any time upon a determination by the Government that such termination is in the best interests of the Government or in the event of Avco's default.

Avco's profits under government contracts are subject to renegotiation by the Government according to applicable law. Avco has received clearance under the Renegotiation Act for 1962 and prior fiscal years, and it is not anticipated that any refund will be required for the 1963 fiscal year. Some government contracts contain provisions requiring that, upon completion of the contract or an agreed portion thereof, prices paid by the Government thereunder be redetermined either upward or downward. In some cases such price revisions are made pursuant to incentive pricing provisions in the contract under which Avco and the Government share on an agreed basis in any upward or downward variation of the cost of performing the contract from an agreed target cost. In some cases incentives and penalties based upon Avco's performance are also included in the contract.

Competitive Conditions

In the sale of its products and services, both to the Government and commercially, Avco is subject to keen competition. Much of Avco's research and development activity is in specialized areas of possible future potential rather than present markets, and, in many instances, continued expenditure of substantial funds will be required to bring the projects to completion. Avco's defense and space business is necessarily affected by many factors not within its control, including variations in the military requirements of the Government, defense and space budget limitations, obsolescence of military and space devices and weapons systems, and rapid advances made in scientific and technical phases of defense products.

Employee Relations

Avco and its subsidiaries presently employ approximately 23,500 persons. The conditions of employment of all but a relatively small percentage of hourly-paid employees are governed by labor contracts having various expiration dates with numerous different unions. Only a small percentage of salaried employees is unionized. Avco has had no significant work stoppage of any substantial duration during the past three years, other than a strike at the Lycoming Stratford Division in April 1964 which lasted for 7 days and an unauthorized work stoppage at the Coldwater, Ohio, plant of the New Idea Division in July 1964 which lasted for 9 days.

Avco and its domestic subsidiaries have in effect a contributory Retirement Plan for the benefit of all salaried employees who have either a base salary of $3,000 or more and two years of continuous

service, or who have 10 years or more of service irrespective of base salary. Pensions are also provided under certain of Avco's labor contracts for the hourly-rated employees covered thereby. Group Insurance Plans are in effect which provide life insurance, sickness, accident, hospital and surgery benefits for employees and dependents.

Stockholder Communications

Avco furnishes to all stockholders within 90 days following the close of each fiscal year a printed Annual Report containing financial statements and a report of independent public accountants. In addition, Avco issues to stockholders three times a year a Stockholders Newsletter, describing corporate developments of interest to stockholders and setting forth operating results for the most recent fiscal period.

Plants and Properties

The principal plants and properties operated by Avco and its subsidiaries are described below. All of such plants and properties are owned in fee except as otherwise stated. Substantially all are modern fireproof construction and are maintained in good order and repair.

Material portions of the machinery and equipment used by Avco in the performance of its government contracts, as well as the Stratford, Connecticut, plant of the Lycoming Division described below, are owned by the Government. They are provided to Avco pursuant to facilities contracts which authorize Avco to use the same, without charge, in the performance of specified government supply contracts. In addition, use thereof is permitted in the performance of other government contracts, generally without charge, provided prior governmental approval is obtained, and, under certain circumstances, in the performance of commercial work if governmental approval is obtained and appropriate rentals are paid to the Government. The facilities contracts are terminable by the Government at any time, but Avco does not anticipate that such termination will occur with respect to any such facilities so long as the use thereof is required in the performance of government contracts.

Research and Advanced Development Division

The headquarters of this Division are located at the Avco Research Center in Wilmington, Massachusetts, approximately twenty miles from Boston. This facility has approximately 562,000 square feet of floor area situated on a site of approximately 80 acres. It consists of five main buildings which separately house administrative, research, engineering and prototype manufacturing facilities. In addition, there is a ballistic range building and an arc wind tunnel building. The Division also owns two plants in Lowell, Massachusetts, one of approximately 110,000 square feet of floor area located on 12 acres of land and the other of approximately 206,000 square feet on 14 acres, housing facilities for research and development. The Division also leases 50 acres of land in Wilmington, Massachusetts, on which it has erected an electronics test facility, and approximately 150,000 square feet of floor space in Lawrence, Massachusetts, where research and development work is carried on.

Avco-Everett Research Laboratory

The Avco-Everett Research Laboratory is located in Everett, Massachusetts, in leased premises having approximately 140,000 square feet. The Laboratory also owns 61 acres of land in Haverhill, Massachusetts, on which it has erected a building of approximately 11,200 square feet to house an MHD experimental generator, office and shop facilities.

Tulsa Division

This Division, located in Tulsa, Oklahoma, occupies facilities having approximately 62,000 square feet of laboratory area located on a site of approximately 25 acres.

Lycoming Williamsport Division

This Division's plants at Williamsport, Pennsylvania, have approximately 720,000 square feet of floor space.

Lycoming Stratford Division

The Government-owned plant used and occupied by this Division at Stratford, Connecticut, has been provided under a facilities contract with the United States Air Force. The plant contains approximately 1,500,000 square feet of floor space.

Electronics Division

This Division owns two plants, one of which is in Cincinnati and the other in Evendale, Ohio. Each plant has approximately 400,000 square feet of floor space, but the Cincinnati plant is presently unused except for storage purposes.

Ordnance Division

This Division owns a plant at Richmond, Indiana, having approximately 930,000 square feet of floor space, and a test firing range at Connersville, Indiana.

Aerospace Structures Division

The plant of this Division in Nashville, Tennessee, has approximately 1,450,000 square feet of floor space.

New Idea Division

The plants of this Division are at Coldwater, Ohio (approximately 906,000 square feet of floor area), and Fort Dodge, Iowa (approximately 161,000 square feet). The Barn-O-Matic Division owns a plant at New London, Wisconsin, having approximately 26,000 square feet.

Moffats, Limited

The plants of this subsidiary are at Weston, Ontario (approximately 485,000 square feet of floor area) and Orillia, Ontario (approximately 60,000 square feet). Another subsidiary, Moffats, Limited (U. K.), leases a plant at Uddingston, near Glasgow, Scotland, of approximately 131,500 square feet.

Crosley Broadcasting Corporation

This subsidiary owns tracts of land in or near Cincinnati, Dayton and Columbus, Ohio, and Indianapolis, Indiana, on which are situated buildings housing studios and transmitting equipment or signal-radiating towers for its radio and television stations. It leases a six-story steel-frame building containing approximately 38,000 square feet of floor area in Cincinnati, Ohio, which houses its administrative offices and the radio and television broadcasting studios of stations WLW and WLW-T, and also leases property in Indianapolis for broadcasting studios and offices.

Common Stock

Avco's Common Stock has exclusive voting rights, one vote per share. Such stock does not carry any preemptive, subscription or conversion rights and is not subject to redemption. All of the outstanding shares of Common Stock are validly issued, fully-paid and non-assessable. The holders of Common Stock are entitled to such dividends as may be declared by Avco's Board of Directors out of earnings lawfully available therefor, and, in the event of any liquidation of Avco, to all assets available for distribution after settlement of prior claims according to their respective holdings.

Pursuant to Agreements with The Prudential Insurance Company of America and Metropolitan Life Insurance Company, dated September 1, 1950, July 3, 1951, and July 15, 1953, as amended on August 28 and 31, 1964, Avco has covenanted that so long as any of the promissory notes issued under said Agreements are outstanding, it will not, without the prior written consent of the holder or holders of at least two-thirds of the principal amount of the notes then outstanding, declare or pay any dividend (except stock dividends) on, or make any other distribution on account of, any shares of any class of its stock now or hereafter outstanding, or redeem, retire, purchase or otherwise acquire, directly or indirectly, any shares of any class of its stock now or hereafter outstanding, unless, after any such payment, distribution, redemption, retirement, purchase or acquisition, 70% of the consolidated net income (as defined) of Avco and its subsidiaries for the period (taken as one accounting period) commencing on December 1, 1949, and terminating at the end of the last fiscal quarter preceding the date of such proposed payment, distribution, redemption, retirement, purchase or acquisition, plus 30% of the consolidated net income of Avco and its subsidiaries for the similar period commencing on December 1, 1964, plus $3,500,000, shall equal or exceed the sum of (*i*) the aggregate amount of all dividends (except stock dividends) and other distributions declared or paid on any shares of any class of stock of Avco subsequent to December 20, 1949, plus (*ii*) the excess, if any, of the aggregate amount expended, directly or indirectly, subsequent to November 30, 1949, for the redemption, retirement, purchase or other acquisition of any shares of any class of stock of Avco, over the sum of (*aa*) the aggregate cash expenditure not in excess of $35,000,000 for purchase by Avco of shares of its Common Stock not in excess of the number of such shares exchanged by Avco for Delta shares and (*bb*) the net proceeds realized by Avco by the issuance of shares of its capital stock subsequent to November 30, 1964, plus (*iii*) the excess, if any, of the aggregate amount of restricted investments (as defined) over $35,000,000.

The foregoing, however, is not deemed to prevent or prohibit the redemption, retirement, purchase or other acquisition of shares of any class of stock of Avco or of any subsidiary solely in exchange for, and/or by the use of the proceeds of the sale prior to December 1, 1964 of, shares of capital stock of Avco of any class, or to prevent or prohibit the purchase of shares of any class of stock of Avco with moneys accumulated for such purpose pursuant to any employee bonus or extra compensation plan approved by the shareholders of Avco, or to require that any such exempted redemption, retirement, purchase or other acquisition be taken into account under any of the foregoing provisions referred to in this paragraph.

Under this formula, and assuming the exchange for Delta shares of all shares of Avco's Common Stock held in its treasury as of June 30, 1964 (having a cost to Avco of $6,955,034), $26,791,803 of Avco's retained earnings as of such date would not have been restricted with respect to the payment of cash dividends on its Common Stock.

Such Agreements also provide that Avco will not, without the prior written consent of the holder or holders of at least two-thirds of the principal amount of the notes then outstanding, permit the consolidated working capital (as defined) of Avco and its subsidiaries to be less than $60,000,000. As of June 30, 1964, such consolidated working capital was approximately $111,000,000.

Provisions substantially identical to those referred to above are also contained in Avco's Agreement, dated April 10, 1953, as amended, with a group of 14 banks, providing Avco with a revolving line of credit of $20,000,000 until September 1, 1965, on 90-day notes bearing interest at the prime rate in effect at the time such notes are issued.

The Indenture, dated February 1, 1959, pursuant to which Avco's 5% Convertible Subordinated Debentures are outstanding also prohibits the declaration or payment of dividends on Avco's capital stock or the purchase or other acquisition of its capital stock by Avco or any subsidiary in a manner similar to that referred to above, but the amount of retained earnings as of June 30, 1964, not restricted with respect to the payment of cash dividends on Avco's Common Stock under these provisions was greater than the amount not restricted under the provisions of the insurance company and bank agreements.

Management

The executive officers and directors of Avco are as follows:

Kendrick R. Wilson, Jr.*	Chairman of the Board of Directors and Chief Executive Officer
James R. Kerr*	President and Chief Operating Officer and Director
Earl H. Blaik*	Chairman of the Executive Committee and Director
Arthur R. Kantrowitz	Vice President—Director of Avco-Everett Research Laboratory, and Director
E. Douglas Kenna	Vice President—Research and Advanced Development Division
Matthew A. McLaughlin*	Vice President, General Counsel and Director
John M. Mihalic	Group Vice President—Aerospace Structures, Electronics and Ordnance Divisions
Henry J. Oechler	Vice President—International Operations
Arthur E. Rasmussen	Financial Vice President
James D. Shouse	Vice President—Broadcasting, and Director
Curry W. Stoup	Group Vice President—New Idea, Ezee Flow and Barn-O-Matic Divisions
Frank S. Larson	Treasurer
Gordon M. Tuttle	Secretary

George E. Allen*	Director	Herman H. Kahn	Director
James Bruce*	Director	Edward H. Litchfield	Director
Martin W. Clement*	Director	Daniel K. Ludwig	Director
Neil J. Curry	Director	John A. McDougald	Director
C. Coburn Darling	Director	Walter A. Mogensen	Director
Rudolph H. Deetjen	Director	William I. Myers*	Director
Robert L. Johnson	Director	Benjamin H. Namm	Director

* Member of the Executive Committee.

All of the above-named officers have been with Avco during the past five years, and this has been their principal occupation during that period. As of July 28, 1964, Avco's officers and directors as a group beneficially owned, directly or indirectly, 210,958 shares of the Common Stock of Avco and $12,000 aggregate principal amount of its Convertible Subordinated Debentures.

Lehman Brothers, 1 William Street, New York, New York, of which Mr. Kahn is a partner, and Emanuel, Deetjen & Co., 120 Broadway, New York, New York, of which Mr. Deetjen is a partner, have been making purchases for Avco as brokers on the New York Stock Exchange of its Convertible Subordinated Debentures since October 1963 and shares of its Common Stock since January 1964. For such services as brokers in such transactions, these firms had received brokerage commissions at regular rates aggregating approximately $103,000 as of July 31, 1964. (See the heading "Purpose of Issue—Comparative Market Prices" above for further information with respect to these purchases of Common Stock.) Reference is made to the heading "Purpose of Issue—Expenses" above for information with respect to the compensation to be received by Lehman Brothers in connection with the exchange of shares.

Remuneration of Directors and Officers

The following tabulation shows the aggregate direct remuneration paid by Avco and its subsidiaries during the fiscal year 1963 (*a*) to each director, and each of the three highest paid officers, of Avco whose aggregate direct remuneration exceeded $30,000, and (*b*) to all directors and officers of Avco as a group, as well as the estimated amount of annual benefits which would be received by each such designated person under Avco's existing Pension Plan upon retirement at age 65 and assuming no change in present rates of compensation: (See the heading "Litigation" above for information with respect to a pending lawsuit regarding the method of funding benefits under Avco's Pension Plan.)

Name	Aggregate Remuneration(1)	Estimated Annual Retirement Benefits
Kendrick R. Wilson, Jr.	$ 230,000	$ 25,000
James R. Kerr	230,000	23,250
Earl H. Blaik	180,000	—
Matthew A. McLaughlin	135,000	18,750
Arthur R. Kantrowitz	135,000	18,750
James D. Shouse	115,000	21,750
All officers and directors as a group	1,737,450	202,074

(1) Includes salaries paid for services in the capacities described above, as well as extra compensation accrued in 1963 but paid in 1964 pursuant to Avco's Extra Compensation Plan described below.

Employment Agreements

Avco entered into employment agreements with Messrs. Wilson and Kerr on October 26, 1962, pursuant to which each will be employed in a full-time executive capacity until November 30, 1969, and indefinitely thereafter unless the contracts are terminated upon 90 days' notice by either party. Each is to receive compensation at his present salary rate, except that the Board of Directors may increase such salaries effective on the date of any annual meeting of the Board.

Upon cessation of such full-time employment, Messrs. Wilson and Kerr will each be employed as consultants to Avco and its subsidiaries until their respective normal retirement dates under Avco's Pension Plan at an annual salary of $25,000. In addition each will be entitled to an aggregate amount equal to $10,000 multiplied by the number of full years or part thereof of their employment as consultants by Avco, to be paid in installments following the cessation of their employment as consultants. Mr. Kerr will also receive an aggregate amount equal to the sum of (*i*) $53,000, (*ii*) $10,000 multiplied by the number of full years or part thereof of his full-time employment by Avco since October 26, 1962, and (*iii*) a cost of living factor at the rate of 3% compounded annually from October 26, 1962, on said $53,000 and on the accumulating balance of said $10,000 amounts, such amount to be paid to him in installments following the cessation of his full-time employment by Avco. In the event of the death of either officer prior to the receipt by him of the aggregate amounts specified in the two preceding sentences, the unpaid balance of such amounts will be paid to his legal representatives.

Pursuant to an employment agreement with Avco which was also entered into on October 26, 1962, Mr. Blaik will be employed in a full-time executive capacity until February 15, 1969. He will receive compensation at his present salary rate, except that the Board of Directors may increase such salary effective on the date of any annual meeting of the Board. Avco entered into an agreement with Mr. McLaughlin on October 4, 1963, providing for his employment in a full-time executive capacity until December 1, 1968, or such later date as may be mutually agreed upon, at a compensation equal

to his present salary rate, except that the Board of Directors may increase such salary effective on the date of any annual meeting of the Board. Upon cessation of his full-time employment, Mr. McLaughlin will be employed as a consultant to Avco and its subsidiaries until November 30, 1978, at an annual salary of $10,000. On July 15, 1964, Avco entered into an employment agreement with Mr. Shouse providing for his employment as a consultant to Avco and its subsidiary, Crosley Broadcasting Corporation, for a term commencing on December 1, 1964, and terminating on December 1, 1968, at an annual salary of $30,000.

Under each of the foregoing contracts, the officers have agreed that, whether acting as full-time employees or as consultants, they will not engage, directly or indirectly, in any business competitive with Avco's except with the written consent of Avco. During their full-time employment, each will be eligible to participate in all Avco insurance programs, Avco's Extra Compensation and Stock Option Plans, and, with the exception of Mr. Blaik, the Avco Pension Plan. During their employment as consultants, Mr. Shouse will be eligible to participate in Avco's insurance programs and its Pension Plan, and Messrs. Wilson, Kerr and McLaughlin will be entitled to receive benefits under Avco's insurance programs (including insurance under its Pension Plan) to the extent they would have been so entitled had they remained in the employ of Avco at the same salary they were receiving upon the cessation of their full-time employment or the maximum benefits provided at the time under such programs, whichever may be less.

Extra Compensation Plan

Avco's Extra Compensation Plan, approved by its stockholders on March 13, 1942, provides for the payment to Avco's officers and employees as extra compensation ten per cent of the amount by which Avco's consolidated manufacturing profit (as defined) exceeds six per cent of its consolidated manufacturing capital (as defined), as determined by Avco's independent auditors. The Board of Directors decides at or about the close of each fiscal year the persons or classes of persons among the officers and employees which will be eligible to participate in the Plan and also determines the extent to which the Chairman of the Board is to participate. The Chairman thereupon determines from among the eligible persons or classes of persons so designated those officers and employees other than himself who are to participate and the amount of such participation. Accordingly, the number of persons who actually participate may vary from a minimum of one to a maximum consisting of all of the officers and employees of Avco.

There is no maximum or minimum limitation on participation in respect of any person who may be eligible to participate. Nothing in the Plan limits the authority of the Board of Directors to increase the compensation of any eligible officer or employee irrespective of whether any amounts are or will be distributable to such person under the Plan.

Avco paid a total of $3,683,363 to 682 employees under the Extra Compensation Plan for the 1963 fiscal year. Of this amount, $835,000 was paid to the officers of Avco and its subsidiaries as a group.

Stock Option Plan

Pursuant to a Stock Option Plan last approved by the stockholders of Avco on March 8, 1960, there were outstanding on July 31, 1964, options to purchase an aggregate of 159,902 shares of the authorized but unissued Common Stock of Avco at an average purchase price of $20.48 per share, and 122,215 additional shares were reserved for options which may be granted in the future. Presently outstanding options are exercisable over periods expiring between November 18, 1964, and November 20, 1968.

Options may be granted under the Plan to officers and executives of Avco and its subsidiaries designated to participate therein by a stock option committee composed of persons not eligible to receive

options. The Plan provides that the option price of each option may not be less than $5.75 per share and must be at least ⅛th of a point above the closing market price of Avco's Common Stock on the New York Stock Exchange the date the option is granted. Each outstanding option is a restricted stock option, as defined in Section 424 of the Internal Revenue Code of 1954, and as such, any employee now holding such an option will incur no income tax upon its exercise if the shares of stock obtained pursuant to such exercise are not disposed of within two years from the date of grant or within six months after the exercise date. Upon any sale of such stock, however, any profit realized or loss sustained by the employee will be treated as a capital gain or loss. When these tax consequences to employees exist, Avco cannot deduct any amounts for federal income tax purposes in connection with the issuance or exercise of such options granted under the Plan.

The Plan provides that the first ⅓ of the option stock may be purchased by the optionee at any time after one year from the date it is granted, the second ⅓ at any time after two years from such date, and the third ⅓ at any time after three years from such date, provided that no part of such option may be exercised after five years from such date. Each optionee has a period of 60 days after termination of his employment with Avco within which to exercise his option with respect to the number of shares exercisable by him as of the date of such termination. In the event of the optionee's death while in the employ of Avco, his legal representatives have a period of one year following his death within which to exercise any options which would have been exercisable by him at the time of his death. All options are exercisable, during his lifetime, only by the holder thereof and may not be transferred by such individual otherwise than by will or the laws of descent and distribution. Option prices are subject to equitable adjustment in the event that Avco issues any additional Common Stock (or securities convertible into Common Stock) at a price lower than the option price. In the event that any options are not exercised by the optionee, the shares covered by the option may be reallocated by the stock option committee. The Plan has no fixed duration and there is no minimum or maximum number of shares with respect to which an employee may receive options.

Between December 1, 1962, and July 31, 1964, no stock options were granted to officers and directors of Avco under its Stock Option Plan, but outstanding options were exercised as follows:

Name	Date	Number of Shares	Option Price	Closing Market Price on Exercise Date
Earl H. Blaik	7/15/63	1,667	$15.13	$27.50
	7/15/63	5,000	13.25	27.50
Arthur R. Kantrowitz	2/13/63	3,334	14.00	24.88
	5/24/63	5,000	14.00	26.13
James R. Kerr	8/22/63	10,000	14.00	25.63
Matthew A. McLaughlin	3/13/63	1,666	13.25	24.13
	7/28/64	1,668	13.25	21.88
Kendrick R. Wilson, Jr.	2/7/63	3,300	13.25	24.38
	2/18/64	3,400	13.25	22.63
All officers and directors as a group	Various	46,736	13.80*	**

* Average option price.

** For information as to the market values of Avco's Common Stock since January 1, 1963, see the heading "Purpose of Issue—Comparative Market Prices" above.

As of July 31, 1964, the following stock options were outstanding under the Stock Option Plan to officers and directors of Avco:

Name	Number of Shares	Option Price	Expiration Date
James R. Kerr	6,667	$13.25	6/15/65
	10,000	15.88	8/10/65
Kendrick R. Wilson, Jr.	10,000	23.50	5/16/67
All officers and directors as a group	39,501	18.86*	11/18/64–6/20/67

* Average option price.

HISTORY AND BUSINESS OF DELTA

General

Delta Acceptance Corporation Limited was incorporated as a private company under the laws of the Province of Ontario (Canada) by letters patent dated March 26, 1954. Supplementary letters patent have been issued to Delta at various times, those being issued on March 15, 1957, having changed its corporate form from a private to a public company. The address of Delta's head office is 291 King Street, London, Ontario, Canada.

The general nature of the business presently transacted by Delta and its subsidiaries is financing purchases and sales for others made on deferred payment plans, making loans to dealers, making consumer loans, making loans to, and purchasing and rediscounting receivables of, other persons and making various types of other loans. In addition, certain subsidiaries are industrial banks, and others are in the insurance business.

These activities are carried out through five main divisions of Delta operating in Canada and the United States. Details as to the business carried on by each such division are set forth below.

Acceptance Division

The Acceptance Division operates in the name of the parent company, Delta Acceptance Corporation Limited, and its subsidiary, Delta Acceptance Canada Limited. This division acquires retail installment sale contracts covering the purchase by consumers of automobiles, mobile homes, appliances and other durable goods. Wholesale advances and loans to dealers are also provided by this division. A capital equipment department provides financing for industrial and commercial accounts on a broad range of revenue-producing machinery and equipment.

Beginning with two branches in 1954, the Acceptance Division now has 33 branches and operates in all Canadian provinces except Newfoundland and Prince Edward Island. As of June 30, 1964, its outstanding receivables totaled approximately $84,200,000.

Loan Division

The Loan Division consists of The Crescent Finance Corporation, Limited, which was acquired by Delta in 1957, and three other subsidiaries. This division makes loans of two categories: small loans for amounts not exceeding $1,500 (Canadian), and loans for amounts in excess of such figure. Small loans are governed by a Canadian federal statute, the Small Loans Act, and Crescent holds License No. 6 issued under that Act. The loans made by the division are, in the great majority of cases, secured by chattel mortgages taken at the time of making the loan covering automobiles and/or household goods. The Loan Division, through a recently-formed subsidiary, Highland Trial Plan

Limited, is also exploring the possibilities of using names of customers as potential mail order buyers of general merchandise.

The Loan Division has expanded from four branches in 1957 to 138 branches as of June 30, 1964, when it had approximately $65,100,000 of outstanding receivables. It operates in every Canadian province.

Insurance Division

This division is composed of two subsidiaries: Adanac General Insurance Company of Canada, and London and Midland General Insurance Company. Each was incorporated by a Special Act of the Canadian Parliament and is licensed to carry on a general insurance business other than life.

Incorporated in 1960, Adanac writes insurance primarily on units financed or taken as collateral by the Acceptance Division. In September 1962, Adanac entered into the "sub-standard" liability and physical damage automobile lines to diversify and reduce its dependence on premium volume originating from the business of other divisions of Delta. London and Midland was acquired in 1962 and writes all forms of general insurance (other than life) exclusively through agents. The Insurance Division reinsures a substantial portion of its total risks with other insurance companies.

Operating with six branches in the Provinces of Alberta, British Columbia, Manitoba, Ontario and Quebec, the first having been established in 1961, this division had a total premium volume in 1963 of approximately $3,300,000.

Industrial Bank Division

The Industrial Bank Division operates in the Denver, Colorado, area out of five offices and consists of five industrial banks and 13 other corporations in the financial field having aggregate total assets (consisting primarily of receivables) as of June 30, 1964, of approximately $15,200,000. The Colorado Industrial Bank was acquired by Delta in January 1963, and is believed to be the largest industrial bank in the State of Colorado in terms of total assets. Subsequent to this acquisition, the Englewood-Colorado Industrial Bank was purchased and the Westminster Colorado Industrial Bank, the East Colorado Industrial Bank and the Aurora Industrial Bank were incorporated.

Operating under special legislation in Colorado, industrial banks may accept demand and time deposits, grant loans and provide their customers with all other banking facilities except checking and trust services.

Home Improvement Division

This division consists of Security Acceptance Corporation, which was acquired by Delta in 1963, and twelve other subsidiaries. It finances home improvements by purchasing customers' notes from building contractors and dealers. Such notes are usually secured by supplemental mortgages on the homes involved.

The Home Improvement Division operates a total of 14 branches in New England and in five other states, and as of June 30, 1964, had outstanding receivables totaling approximately $35,200,000. (See the heading "Litigation" below for information relating to certain proceedings pending against Security Acceptance Corporation.)

Receivables and Credit Experience

The following table shows the amount, by type of security, of contracts receivable acquired by Delta and its subsidiaries during each of the periods indicated and the amount of contracts receivable outstanding at the end of each such period. Also shown is information concerning the allowance for

losses and the ratio of such allowance to contracts receivable at the end of each period and the ratio of losses (net of recoveries) to collections during the periods.

	Years Ended December 31,					Six Months Ended June 30, 1964
	1959	1960	1961	1962	1963	
	(Stated in thousands of U. S. dollars)					
Acquisitions during period:						
Retail instalment contracts—						
Automobiles	$ 19,672	$ 21,897	$ 23,649	$ 33,905	$ 41,937	$ 29,711
Home improvements		95	3,620	9,973	20,472	15,964
Mobile homes	9,143	6,906	4,513	4,298	2,806	1,068
Direct loans	5,114	7,987	11,785	16,076	31,401	19,891
Machinery and equipment			2,575	9,420	15,540	9,035
Other	4,386	6,648	6,272	6,982	12,138	8,889
	38,315	43,533	52,414	80,654	124,294	84,558
Wholesale advances and loans to dealers—						
Automobiles	22,601	25,070	24,126	33,323	37,905	23,816
Mobile homes	6,061	5,449	2,800	2,978	3,413	1,086
Other	206	355	907	649	1,545	803
	28,868	30,874	27,833	36,950	42,863	25,705
Small loans—						
Automobiles	1,405	2,395	2,378	2,808	3,951	2,287
Household goods	2,566	5,757	12,604	20,677	32,455	19,813
Household goods and automobiles	3,658	6,713	9,644	11,788	14,384	7,979
Other	592	892	1,638	2,367	5,363	3,845
	8,221	15,757	26,264	37,640	56,153	33,924
Capital loans	1,749	1,869	1,532	1,607	1,207	735
Total	$ 77,153	$ 92,033	$108,043	$156,851	$224,517	$144,922
Contracts receivable at end of period:						
Retail instalment contracts—						
Automobiles	$ 13,793	$ 15,358	$ 17,054	$ 26,720	$ 36,626	$ 45,426
Home improvements		92	3,182	10,972	25,279	36,158
Mobile homes	10,587	10,138	7,877	6,401	4,965	4,140
Direct loans	4,241	7,239	10,954	15,112	28,049	33,109
Machinery and equipment			2,592	7,394	13,859	12,936
Other	3,940	5,863	5,119	7,442	10,906	16,639
	32,561	38,690	46,778	74,041	119,684	148,408
Wholesale advances and loans to dealers	5,775	5,577	6,522	6,391	6,175	9,565
Small loans	5,390	10,280	16,260	23,218	35,459	40,117
Capital loans	1,989	2,524	2,372	2,230	2,150	2,105
Total	$ 45,715	$ 57,071	$ 71,932	$105,880	$163,468	$200,195
Allowance for losses on contracts receivable:						
At beginning of period	$ 513	$ 625	$ 847	$ 1,110	$ 1,614	$ 2,608
Add: Provision during period	576	842	1,429	1,761	2,148	1,468
Allowance carried by subsidiaries acquired in 1963					241	
	1,089	1,467	2,276	2,871	4,003	4,076
Deduct: Losses on receivables less recoveries	485	579	1,137	1,241	1,395	898
Other changes—net	(21)	41	29	16		
	464	620	1,166	1,257	1,395	898
At end of period	$ 625	$ 847	$ 1,110	$ 1,614	$ 2,608	$ 3,178
Ratio of allowance for losses to contracts receivable at end of period	1.4%	1.5%	1.5%	1.5%	1.6%	1.6%
Ratio of losses (net of recoveries) to collections	.8%	.7%	1.3%	1.0%	.8%	.8%

Delta has enjoyed favorable delinquency and credit experience throughout its history. At June 30, 1964, the $3,177,863 allowance for losses was in addition to an amount of $1,545,262 withheld from dealers which, subject to certain conditions, would serve as an additional allowance for losses.

The following table contains information concerning delinquent accounts and contracts receivable at the dates indicated:

	December 31, 1961	December 31, 1962	December 31, 1963	June 30, 1964
	(Stated in thousands of U. S. dollars)			
Contracts receivable	$71,932	$105,880	$163,468	$200,195
Accounts in which one or more instalments are delinquent:				
31 to 60 days	$ 581	$ 891	$ 1,669	$ 1,901
61 to 90 days	255	328	632	811
91 days and over	350	612	1,214	1,639
Total	$ 1,186	$ 1,831	$ 3,515	$ 4,351
Ratio of delinquent accounts to contracts receivable	1.6%	1.7%	2.2%	2.2%

Borrowing Structure

Delta's debt is divided into three layers,—senior, subordinated and junior subordinated. Each layer is secured by a floating charge, in order of its priority, on the assets of Delta, under a separate Deed of Trust. The amount of each layer of debt which Delta may issue is governed by ratios set out in such Deeds of Trust. For detailed information as to the amount of debt of each class outstanding as of June 30, 1964, see the heading "Certain Financial and Accounting Information—Debt and Capitalization of Delta" above.

Properties

Aside from certain real properties which some of Delta's subsidiaries may be holding from time to time for investment or on a temporary basis, the properties occupied by Delta and its subsidiaries are occupied under leases for varying terms to provide office space for the various head offices, branch offices and related service functions.

Competitive Conditions

Based upon industry data collected by its management, Delta believes that it is the fourth largest independent Canadian finance company in terms of gross receivables outstanding as of December 31, 1963. The business carried on by Delta is in highly competitive fields. In addition to the competition offered by other independent finance companies and banks, competition exists with finance companies affiliated with the manufacturers of the articles being financed, small loan and industrial loan companies, commercial and industrial credit unions, mutual or cooperative associations, and other financial organizations.

Litigation

Subsequent to the acquisition by Delta of Security Acceptance Corporation in 1963, the Bristol County grand jury in New Bedford, Massachusetts, handed down four indictments alleging violations by such subsidiary of the Massachusetts Small Loans Law because of the nature of certain loans discounted in such state. Delta's management is of the opinion that Security Acceptance Corporation is not guilty of violating this law and that the discounting of the loans at issue is in fact exempt from the provisions of the Small Loans Law.

Common Shares

The holders of Delta's Common Shares are entitled to receive such dividends as may be declared by its Board of Directors after the prior preference rights of the holders of Delta's First and Second Preference Shares have been satisfied. In this connection, the First Preference Shares are entitled to preference over the Common Shares and the Second Preference Shares (including the Series A and B Convertible Shares) both in respect of the payment of dividends and in respect of repayment of capital and distribution of assets in the event of liquidation, dissolution or winding up of Delta, whether voluntary or involuntary; and the Second Preference Shares are entitled to similar preference over the Common Shares. Each series of First or Second Preference Shares ranks on a parity with the other series of such class. (For information in summary form as to the dividend and conversion rights and the redemption and sinking fund provisions applicable to the First and Second Preference Shares, see the heading "Certain Financial and Accounting Information—Debt and Capitalization of Delta" above.) The holders of Delta's Common Shares (as well as the holders of its First and Second Preference Shares) are entitled to one vote in person or by proxy at all meetings of shareholders in respect of each share held. No Delta shares carry any preemptive rights.

Pursuant to Supplemental Indentures supplementing the Deeds of Trust referred to under the heading "Borrowing Structure" above, Delta has agreed that, so long as any of the debt covered by such Deeds of Trust remains outstanding, it will not declare or pay any cash dividends on its Common Shares, or purchase, redeem or retire any of its capital stock of any class or make any distributions in respect of any such stock unless immediately thereafter and after giving effect to the stock payment in question:

(a) the aggregate amount of such stock payments made (plus all dividends paid on its Preference Shares) during the period subsequent to December 31, 1962, will be less than the sum of (*i*) the total consolidated net earnings (as defined) of Delta and its subsidiaries (in Canadian dollars) during such period, plus (*ii*) $250,000 (Canadian);

(b) the aggregate amount of such stock payments made upon or in respect of its Common Shares during the period subsequent to December 31, 1962, will be less than 50% of the total consolidated net earnings of Delta and its subsidiaries (in Canadian dollars) during such period; and

(c) the adjusted consolidated net worth (as defined) of Delta and its subsidiaries will not be less than $18,000,000 (Canadian).

Retained earnings of Delta expressed in Canadian dollars (upon which the above restrictions are based) differ substantially from retained earnings of Delta expressed in United States dollars. (See Note 2 to Delta's consolidated financial statements.) As of June 30, 1964, Delta's retained earnings in Canadian dollars amounted to $2,750,772, of which $1,866,032 were not restricted with respect to stock payments on Delta's Common Shares.

Share Ownership

As of July 14, 1964, Robert D. Harrington owned or controlled 425,000 Common Shares of Delta, or approximately 20% of the aggregate number of such shares outstanding on such date, and he might be deemed to be a "parent" of Delta, as such term is defined in the regulations under the United States Securities Act of 1933. Mr. Harrington also owned 7,000 Series A Convertible Shares, which are convertible into 52,500 Common Shares. If the proposed exchange of shares become effective, and all of Delta's outstanding Common and Series A and B Convertible Shares are tendered for exchange, Mr. Harrington will own or control approximately 3.44% of the outstanding Common Stock of Avco. One of Mr. Harrington's associates is Massachusetts Protective Association Inc., of which John R. Gosnell is a Vice President. (See the heading "Purpose of Issue—Future Operations of Delta; Management Changes" above.)

Proposed Foreign Expansion

Delta is engaged in negotiations looking toward the acquisition in early 1965 of a 97% interest in Curt Briechle KG, a German limited partnership, at an aggregate price of $850,000. Curt Briechle KG is in the acceptance business in West Germany, with authority to deal in installment paper of all varieties, but nearly all of its business presently is in the automotive field. It operates through 15 branches and had outstanding, as of June 30, 1964, receivables aggregating the equivalent of approximately $15,000,000. Delta proposes, if the acquisition is consummated, to change the organizational form of the company to that of a limited liability corporation which would be operated as a subsidiary.

LEGAL OPINIONS AND EXPERTS

Legal matters in connection with the Common Stock of Avco referred to herein are being passed upon for Avco by its General Counsel, Matthew A. McLaughlin, Esq., who is also a Vice President and a director of Avco. Messrs. Harrison, Elwood, Gregory & Littlejohn, of London, Ontario, Canada, are acting as special counsel for Avco in connection with the Canadian aspects of these transactions.

The consolidated financial statements, including the statement of earnings, of Avco and its subsidiaries appearing in this Prospectus and the related schedules incorporated by reference in the Registration Statement have been examined by Arthur Young & Company, certified public accountants, as set forth in their reports appearing elsewhere herein and in the Registration Statement. The consolidated financial statements, including the statement of income, and the schedules of Delta and its subsidiaries appearing in this Prospectus and in the Registration Statement have been examined by Arthur Young, Clarkson, Gordon & Co., chartered accountants, as set forth in their reports appearing elsewhere herein and in the Registration Statement. These financial statements and schedules have been included or incorporated by reference by Avco in reliance upon such reports and upon the authority of such firms as experts.

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INDEX TO FINANCIAL STATEMENTS

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
Avco Corporation

We have examined the accompanying consolidated balance sheet of Avco Corporation and subsidiaries at November 30, 1963, the related consolidated statements of earnings for the five years then ended, of additional paid-in capital and of retained earnings for the three years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. It was not practicable to confirm amounts due from the U. S. government, as to which we satisfied ourselves by means of other auditing procedures.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Avco Corporation and subsidiaries at November 30, 1963 and the consolidated results of their operations for the five years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

ARTHUR YOUNG & COMPANY

New York, N. Y.
August 24, 1964

REPORT OF CHARTERED ACCOUNTANTS

The Board of Directors
DELTA ACCEPTANCE CORPORATION LIMITED

We have examined the accompanying consolidated balance sheet of Delta Acceptance Corporation Limited and subsidiaries at December 31, 1963, stated in U. S. dollars, and the related consolidated statements of income for the five years then ended and of retained earnings (deficit) for the three years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In the financial statements of Delta Acceptance Corporation Limited and subsidiaries stated in Canadian dollars, in which the accounts of Delta are maintained, the unrealized exchange loss on notes payable in U. S. dollars is recognized only with respect to the current portion. (See Note 2.) In the financial statements stated in U. S. dollars this unrealized exchange loss is fully recognized.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Delta Acceptance Corporation Limited and subsidiaries at December 31, 1963 and the consolidated results of their operations for the five years then ended, stated in U. S. dollars, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

ARTHUR YOUNG, CLARKSON, GORDON & CO.
Chartered Accountants

London, Canada
August 24, 1964.

AVCO CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

	November 30, 1963	June 30, 1964 (Unaudited)
Current assets:		
Cash	$ 14,683,832	$ 12,028,249
U. S. government securities, at cost (approximate market)	4,596,896	—
Accounts receivable (including amounts due from U. S. government—$57,584,136 in 1963; $46,859,419 in 1964)	96,878,076	93,354,281
Less—Allowances for losses and discounts	622,383	703,340
Total accounts receivable	96,255,693	92,650,941
Inventories, at the lower of cost or market (Note 2):		
U. S. government contracts and subcontracts	61,721,717	68,314,246
Less—Progress payments	20,314,015	20,890,757
	41,407,702	47,423,489
Civilian:		
Finished goods	9,184,078	12,567,505
Work in process, raw materials and parts	16,193,356	15,555,341
Total inventories	66,785,136	75,546,335
Total current assets	182,321,557	180,225,525
Investments and other assets, at cost less reserve of $300,000 in 1964	4,052,096	5,639,708
Property, plant and equipment, at cost (Note 3):		
Land	1,681,105	1,755,325
Buildings and improvements	52,819,893	53,414,991
Machinery and equipment	38,008,438	40,707,835
Furniture, automobiles, etc.	7,368,120	7,434,424
Patterns, dies, jigs and special tools	2,436,041	2,355,776
Construction in progress	1,049,398	1,249,952
	103,362,995	106,918,303
Less—Accumulated depreciation	60,588,495	63,263,682
Net property, plant and equipment	42,774,500	43,654,621
Intangible assets, at cost less amortization (Note 3)	744,095	664,818
	$229,892,248	$230,184,672

See accompanying notes.

AVCO CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

	November 30, 1963	June 30, 1964 (Unaudited)
Current liabilities:		
Accounts payable	$ 21,437,447	$ 17,338,206
U. S. federal and Canadian income taxes, less U. S. government securities, at cost—$21,453,771 in 1963; $12,472,199 in 1964	—	8,327,589
Other taxes	7,089,570	7,239,856
Accrued salaries and wages	11,174,591	9,857,845
Other accrued liabilities	11,838,874	11,566,410
Long term debt installments due within one year	1,789,500	1,780,500
Dividends payable on common stock	—	2,750,499
Total current liabilities	53,329,982	58,860,905
Long term debt (Note 4)	20,863,297	18,818,797
Stockholders' equity:		
Preferred stock, without par value:		
Authorized: 200,000 shares (none outstanding)		
Common stock, par value $3 per share:		
Authorized: 15,000,000 shares		
Issued and outstanding shares—11,279,413 in 1963; 11,315,296, including 313,300 held in treasury, in 1964	33,838,239	33,945,888
Reserved for:		
Conversion of 5% Convertible Subordinated Debentures—585,556 in 1963 and 409,861 in 1964 (Note 4)		
Options to officers and supervisory executives—309,470 in 1963 and 286,069 in 1964 (Note 5)		
Additional paid-in capital	34,725,267	33,060,228
Retained earnings (Note 6)	87,135,463	92,453,888
	155,698,969	159,460,004
Less—Cost of 313,300 shares of common stock held in treasury	—	6,955,034
Total stockholders' equity	155,698,969	152,504,970
	$229,892,248	$230,184,672

See accompanying notes.

AVCO CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ADDITIONAL PAID-IN CAPITAL

			Year ended November 30,			Seven months ended June 30, 1964 (Unaudited)
			1961	1962	1963	
Balance at beginning of period			$26,409,328	$30,477,312	$32,816,860	$34,725,267
Excess, over par value, of proceeds received on common stock issued on exercise of options (Note 5)			566,731	760,566	1,273,944	251,998
Excess, over par value, of principal amount of 5% convertible subordinated debentures converted into common stock, after adjustment for purchase of fractional shares, etc.:						
	Principal Amount	Number of Common Shares				
1961	$4,734,800	411,507	3,501,253			
1962	2,122,400	184,406		1,578,982		
1963	1,110,500	96,371			831,758	
1964	139,500	12,057				103,462
Excess of purchase price over principal amount ($189,000 in 1963 and $1,881,000 in 1964) of 5% convertible subordinated debentures purchased for retirement			—	—	(197,295)	(2,020,499)
Balance at end of period			$30,477,312	$32,816,860	$34,725,267	$33,060,228

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year ended November 30,			Seven months ended June 30, 1964 (Unaudited)
	1961	1962	1963	
Balance at beginning of period	$54,047,895	$60,999,332	$73,660,781	$87,135,463
Net earnings	12,982,052	20,040,265	22,432,997	13,662,264
	67,029,947	81,039,597	96,093,778	100,797,727
Cash dividends declared on common stock (57½ cents per share in 1961; 67½ cents per share in 1962; 80 cents per share in 1963; 75 cents per share in the seven months ended June 30, 1964)	6,030,615	7,378,816	8,958,315	8,343,839
Balance at end of period (Note 6)	$60,999,332	$73,660,781	$87,135,463	$92,453,888

See accompanying notes.

AVCO CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—Principles of consolidation:

All subsidiaries are wholly-owned and are included in consolidation in the accompanying financial statements. The net assets shown by the books of the subsidiaries exceeded the amount at which the Company's investments therein are carried on its books by $24,207,779 at November 30, 1963 and $26,231,011 at June 30, 1964. These amounts (representing undistributed earnings of the subsidiaries from dates of acquisition to November 30, 1963 and June 30, 1964, respectively) have been included in retained earnings in the consolidated balance sheets. Intercompany transactions and profits have been eliminated in consolidation.

The accounts of the Company's Canadian subsidiaries have been translated into U. S. dollars generally as follows: current asset and current liability accounts at the rate of exchange at the end of the period; income and expense accounts, excluding depreciation, at the average exchange rate for the period; and all other accounts at par. The net adjustments, which were not material, have been reflected in earnings.

NOTE 2—Inventories:

U. S. government contracts and subcontracts are stated at accumulated costs less the estimated average cost of items delivered (computed from accumulated costs plus estimates of costs of completion) and less, where applicable, allowance for estimated losses to be sustained on completion. Civilian inventories are stated at the lower of cost (determined substantially by the "first-in, first-out" method) or realizable market after allowance for obsolete and slow moving items. It is impracticable to segregate inventories of raw materials and parts from work in process.

Inventory balances, before deduction of progress payments, were as follows: November 30, 1960—$54,650,932, November 30, 1961—$63,317,523, November 30, 1962—$105,931,329, November 30, 1963—$87,099,151, June 30, 1964—$96,437,092.

NOTE 3—Property, depreciation and amortization:

Depreciation of property, plant and equipment is provided on the basis of the estimated useful lives of the various classes of depreciable assets which were as follows for the principal asset classifications:

Buildings and improvements	10 to 50 years
Machinery and equipment	4 to 15 years
Furniture and office equipment	5 to 15 years
Autos, trucks and airplanes	3 to 5 years
Patterns, dies, jigs and special tools	3 to 6 years

The Company and its domestic subsidiaries compute depreciation principally by the "straight-line" and "sum-of-the-years-digits" methods except that certain facilities certified by the U. S. government as necessary in the defense program are depreciated at rates established by the U. S. Emergency Facilities Depreciation Board for contract cost purposes which result in higher rates during the first five years of use thereof and lower rates thereafter; such facilities were substantially fully depreciated at June 30, 1964. The Company's Canadian subsidiaries compute depreciation by the "declining-balance" method.

The Company and its subsidiaries follow the policy of capitalizing expenditures for expansion of plant facilities and expenditures which materially increase the life of the plant. Expenditures for maintenance and repairs are charged to earnings as incurred.

At the time an item of property, plant and equipment which is depreciated as a unit is sold or retired, the difference between the net book value and proceeds from sale or retirement is charged or credited to earnings. When an item of property, plant and equipment depreciated as part of a group of assets is retired, the cost of the item is charged to accumulated depreciation; when such an item is sold, the difference between the net book value and proceeds is charged or credited to earnings.

In 1964, the investment tax credit, amounting to approximately $152,000 for the seven months ended June 30, 1964, is being applied as a reduction of the provision for U. S. federal income tax. The latter provision for the seven months ended June 30, 1964 also reflects a reduction, amounting to $535,133, for the accumulated investment tax credits of prior years, which had previously been deferred, principally as a reduction of the related property.

Amortization of patents is provided by the "straight-line" method over periods not in excess of the lives thereof. Amortization of license costs is provided by the "straight-line" method over a period of ten years.

NOTE 4—Long term debt:

	Nov. 30, 1963	June 30, 1964
Long term debt consisted of:		
Notes due in annual installments of $1,670,000 until September 1, 1970 when the balance of $5,450,000 is due (average interest rate—3.68%)	$15,470,000	$15,470,000
5% Convertible Subordinated Debentures maturing February 1, 1979 (convertible into common stock at $11.50 per share)	6,733,900	4,713,400
5% First Mortgage Sinking Fund Bonds, Series A, maturing November 1, 1966 (payable in Canadian funds)	448,897	415,897
	22,652,797	20,599,297
Less: Installments due within one year (included in current liabilities)	1,789,500	1,780,500
	$20,863,297	$18,818,797

Annual installments of long term debt amount to $1,760,000 for the 1965 fiscal year plus, in the case of a Canadian subsidiary, an amount equal to 10% of its net income (as defined) for the preceding year, and amount to $1,885,397 for the 1966 fiscal year and $1,670,000 for the 1967 and 1968 fiscal years.

An agreement with a group of banks provides the Company a revolving line of credit of $20,000,000 until September 1, 1965, none of which was outstanding at November 30, 1963 or June 30, 1964.

NOTE 5—Stock options:

At June 30, 1964, there were reserved under a stock option plan approved by stockholders 286,069 shares of common stock and the following options were outstanding (of which options on 133,758 shares were exercisable at June 30, 1964):

Fiscal year granted	Number of shares	Option price		Market price on date option was granted	
		Per share	Total	Per share	Total
1959	7,584	$13.125 to $15.25	$ 113,270	$13.00 to $15.125	$ 112,322
1960	33,502	13.25 to 15.875	472,552	13.125 to 15.75	468,363
1961	56,635	19.00 to 25.375	1,188,417	18.875 to 25.25	1,181,338
1962	55,300	19.375 to 28.125	1,291,550	19.25 to 28.00	1,284,638
1963	11,500	22.875 to 26.625	279,625	22.75 to 26.50	278,188
1964	—		—		—
	164,521		$3,345,414		$3,324,849

Options which became exercisable and those exercised during the three years and seven months ended June 30, 1964, are tabulated below:

	Number of shares	Option price		Market value	
		Per share	Total	Per share	Total
Years became exercisable:					
1961	100,512	$ 6.25 to $16.50	$1,371,074	$14.125 to $25.75	$2,037,298
1962	112,094	12.125 to 25.375	1,730,554	18.625 to 28.375	2,445,600
1963	104,739	13.25 to 28.125	1,782,908	22.375 to 28.50	2,875,478
1964	39,157	19.00 to 28.125	863,201	20.25 to 23.75	849,404
Years exercised:					
1961	90,388	$ 5.75 to $15.25	$ 837,895	$13.625 to $27.125	$1,764,883
1962	70,586	5.875 to 16.50	972,324	19.25 to 28.75	1,791,294
1963	110,040	9.625 to 21.00	1,604,064	22.125 to 28.875	2,858,372
1964	23,401	13.25 to 15.25	322,201	20.75 to 23.75	517,444

When options are exercised, the excess of proceeds received over the par value of the shares issued is credited to additional paid-in capital. No charges are made against earnings in accounting for the options.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 6—Dividend restrictions:

Under the provisions of the bank credit agreement and long term notes payable $19,836,769 of the retained earnings at June 30, 1964 were not restricted as to the payment of cash dividends on common stock.

NOTE 7—Retirement plans:

The Company and its domestic subsidiaries have had in effect since 1941 an insured contributory retirement and insurance plan in which substantially all salaried employees participate. No recognition is given in the plan to past services rendered by employees prior to adoption of the plan or their participation therein. The Company's share of the cost of this plan was $1,783,662 in 1961, $2,108,303 in 1962, $2,665,786 in 1963 and $1,214,069 for the seven months ended June 30, 1964.

Trusteed non-contributory pension plans have been established under the terms of collective bargaining agreements at certain locations which at June 30, 1964 covered approximately 95% of the total hourly employees of the Company and its subsidiaries. The cost of these plans was $812,025 in 1961, $1,074,870 in 1962, $1,367,922 in 1963 and $818,936 in the seven months ended June 30, 1964, of which $394,703, $489,915, $568,796 and $345,907, respectively, were applicable to past service benefits. Unfunded past service costs, which are being funded on the basis of a level method over a period of thirty years, are estimated at $10,500,000 at June 30, 1964.

NOTE 8—Supplementary profit and loss information:

	Year ended November 30,			Seven Months ended
	1961	1962	1963	June 30, 1964
Maintenance and repairs, charged to:				
Cost of sales	$6,913,178	$9,663,069	$11,143,358	$5,382,867
Selling and administrative expenses	151,021	194,828	265,390	119,980
Total	$7,064,199	$9,857,897	$11,408,748	$5,502,847
Amortization of intangible assets, charged to cost of sales	$ 202,788	$ 227,309	$ 123,624	$ 79,277
Taxes, other than U. S. federal and Canadian income taxes, charged to:				
Cost of sales	$5,442,320	$7,347,097	$ 8,851,739	$5,984,425
Selling and administrative expenses	1,339,602	1,798,247	1,901,167	1,366,741
Total	$6,781,922	$9,145,344	$10,752,906	$7,351,166
Composed of:				
Social security	$4,423,875	$6,053,509	$ 7,505,622	$5,362,217
Real estate and personal property	1,359,546	1,476,890	1,734,607	1,007,966
State corporate	910,740	1,369,305	1,430,349	880,882
Miscellaneous	87,761	245,640	82,328	100,101
Total	$6,781,922	$9,145,344	$10,752,906	$7,351,166
Rents, charged to:				
Cost of sales	$2,741,308	$2,651,171	$ 3,797,488	$2,380,344
Selling and administrative expenses	924,885	915,923	987,422	763,617
Total	$3,666,193	$3,567,094	$ 4,784,910	$3,143,961
Royalties, charged to cost of sales	$ 600,189	$ 655,450	$ 579,769	$ 393,385

No management or service contract fees were paid.

Depreciation of property, plant and equipment charged to earnings, set forth separately in the consolidated statement of earnings, is principally applicable to cost of sales.

DELTA ACCEPTANCE CORPORATION LIMITED
(Incorporated under the laws of Ontario)
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Stated in U. S. dollars)

ASSETS

	December 31, 1963	June 30, 1964 (unaudited)
Current assets:		
Cash	$ 8,977,143	$ 13,836,801
Contracts receivable (Note 3):		
Retail instalment contracts	119,684,131	148,408,281
Wholesale advances and loans to dealers	8,324,905	11,670,003
Small loans	35,459,422	40,116,542
	163,468,458	200,194,826
Less:		
Allowance for losses	2,607,967	3,177,863
Unearned discount and service charges	15,696,900	19,798,279
	18,304,867	22,976,142
Contracts receivable less deductions	145,163,591	177,218,684
Sundry amounts receivable and prepaid expenses	670,676	971,015
Repossessions, at approximate market value	98,094	173,672
Total current assets	154,909,504	192,200,172
Other assets:		
Net assets of insurance subsidiaries (Note 4)	1,941,030	2,018,309
Deferred expenses (Note 5)	582,946	729,771
Furniture, fixtures and leasehold improvements, at cost less accumulated depreciation and amortization of $288,941 in 1963 and $330,520 in 1964	278,565	342,042
Excess of cost of shares acquired in purchases of subsidiaries over net assets of such subsidiaries at dates of acquisition (Note 1)	4,855,162	4,855,162
	$162,567,207	$200,145,456

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31, 1963	June 30, 1964 (unaudited)
Current liabilities:		
Notes payable within one year (including payable to banks of $58,801,250 in 1963 and $66,227,500 in 1964)	$ 78,407,500	$106,969,925
Savings deposits	4,475,126	4,827,979
Amounts withheld on contracts purchased	1,229,627	1,545,262
Accounts payable	743,045	726,884
U. S. and Canadian income taxes	1,850,460	2,101,971
Interest accrued	1,145,305	1,166,649
Total current liabilities	87,851,063	117,338,670
Notes and debentures payable (Note 6)	131,255,325	164,578,200
Less amounts due within one year included in current liabilities	78,407,500	106,969,925
	52,847,825	57,608,275
Shareholders' equity:		
Preference shares (Note 7)	14,161,750	16,159,750
Common shares (no par value) (Note 8)	9,357,954	9,470,231
Authorized: 4,500,000 shares		
Outstanding: 1963—2,103,694 shares; 1964—2,115,331 shares		
Retained earnings (deficit) (Notes 2 and 9)	(1,651,385)	(431,470)
Total shareholders' equity	21,868,319	25,198,511
	$162,567,207	$200,145,456

See accompanying notes.

DELTA ACCEPTANCE CORPORATION LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (DEFICIT)

(Stated in U. S. dollars)

	Year ended December 31, 1961	1962	1963	Six months ended June 30, 1964 (unaudited)
Deficit at beginning of period	$ 482,818	$2,318,569	$3,363,807	$1,651,385
Net income	466,780	981,022	2,180,319	1,580,270
	16,038	1,337,547	1,183,488	71,115
Adjustments resulting from the depreciation of the Canadian dollar (Note 2)	2,092,863	1,752,463	—	—
Cash dividends paid on preference shares:				
Delta Acceptance Corporation Limited	209,285	238,798	431,265	360,355
Security Acceptance Corporation (prior to "pooling of interests" in 1963)	383	34,999	36,632	—
	2,302,531	2,026,260	467,897	360,355
Deficit at end of period (Notes 2 and 9)	$2,318,569	$3,363,807	$1,651,385	$ 431,470

See accompanying notes.

DELTA ACCEPTANCE CORPORATION LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—Principles of consolidation:

All subsidiaries are wholly-owned and are included in the accompanying consolidated financial statements except that combined assets less combined liabilities of the insurance subsidiaries are included in one caption in the consolidated balance sheet and combined net income of such insurance subsidiaries is shown as a separate item in the consolidated statement of income. A substantial portion of the business transacted by the insurance subsidiaries relates to the insuring of risks arising in the ordinary course of the business of the parent company and finance subsidiaries.

In the case of an acquisition accounted for as a "purchase" the policy of the Company is to carry the excess of cost of shares acquired over net assets of subsidiaries at dates of acquisition without amortization. In the case of an acquisition accounted for as a "pooling of interests", the investment is recorded at the net asset value of the subsidiary as shown by its books at date of acquisition.

The amounts at which the parent company's investments in subsidiaries are stated in its U. S. dollar financial statements exceeded by $2,003,697 at December 31, 1963 and $718,825 at June 30, 1964 the net assets shown by the U. S. dollar financial statements of subsidiaries. In consolidation $4,855,162 representing excess of cost of shares acquired in purchases of subsidiaries over net assets of such subsidiaries at dates of acquisition has been included in other assets and $2,851,465 at December 31, 1963 and $4,136,337 at June 30, 1964 representing the Company's equity in undistributed net income of subsidiaries since acquisition has been included in retained earnings (deficit). Intercompany transactions have been eliminated in consolidation.

NOTE 2—Foreign currencies:

During the years 1959 and 1960, the Canadian dollar was valued at a premium in relation to the U. S. dollar. During the latter part of 1960, the value of the Canadian dollar began to decline in relation to the U. S. dollar and this devaluation continued until May of 1962 when the Canadian government established a fixed rate of exchange in relation to the U. S. dollar ($1 Canadian—$.925 U. S.). Since May of 1962 variations from this fixed rate of exchange have been minor.

The accounts of Delta Acceptance Corporation Limited and of its Canadian subsidiaries are maintained in Canadian dollars and the consolidated financial statements of the company and its subsidiaries have been reported in Canadian dollars. Notes payable in U. S. dollars by Delta had, prior to June 30, 1964, been carried in its accounts at the exchange rates prevailing at the time notes were originally issued and the same exchange rates were carried forward to notes issued in refunding transactions. Effective June 30, 1964, Delta adopted retroactively the accepted accounting practice of adjusting its accounts to reflect the current portion of notes payable in U. S. dollars at current exchange rates. The accounts of subsidiaries which operate in the United States of America are maintained in U. S. dollars.

For inclusion in documents containing financial statements of Avco Corporation, the financial statements of Delta and its subsidiaries have been expressed in U. S. dollars. Operations of Canadian companies have been converted into U. S. dollars at the average rates of exchange prevailing during each period. Canadian dollar assets (including fixed assets which are not material) and liabilities and preference shares have been converted to U. S. dollars at the rates of exchange prevailing at the ends of the respective periods. Common stock has been included at the rates of exchange prevailing at the time of issue.

In the conversion to U. S. dollars net exchange gains arising prior to December 31, 1959 were deferred. The total exchange adjustment resulting from the depreciation of net Canadian assets as determined by the establishment of the fixed exchange rate in May of 1962, aggregated $5,019,168 (after deducting the accumulated deferred gains prior to that time). This loss has been charged to retained earnings (deficit) in the U. S. dollar financial statements allocated to the years 1960, 1961 and 1962 on the basis of exchange rates and net Canadian assets at the end of each of those years. Exchange gains arising in 1963 and 1964, which were not material in amount, have been deferred.

Delta's Canadian dollar financial statements reflect the effect of the depreciation of the Canadian dollar on notes payable in U. S. dollars only with respect to the current portion of such notes and the Canadian dollar statements at June 30, 1964 reflect consolidated retained earnings of $2,750,772 (Canadian). In the conversion of the financial statements to U. S. dollars the unrealized exchange loss on the noncurrent portion of notes payable has been fully recognized.

At June 30, 1964, $42,308,373 of consolidated current assets were represented by accounts to be settled in United States funds. At that same date $81,850,065 of consolidated current liabilities were represented by accounts to be settled in United States funds (including notes payable within one year of $73,669,000). See Note 6.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 3—Contracts receivable:

Contracts receivable mature in monthly instalments, generally over periods from one to thirty-six months (certain types of contracts mature over periods from one to sixty months) and consequently include instalments due after one year. Such instalments have been included with current assets in conformity with generally recognized trade practice. It is estimated that approximately 50% of the total contracts receivable at December 31, 1963 and June 30, 1964 were due after one year.

Unearned discount and service charges represent the portion of interest, finance charges, etc., included in the original face amount of the related contracts receivable which is deemed to be unearned at the balance sheet date. A portion of such charges is taken into income at the time of purchase of each contract to offset acquisition costs and the balance is credited to income over the terms of the related receivables approximately in proportion to the uncollected balances of principal. Interest on loans which do not include interest or finance charges in the original face amount is taken into earnings generally as accrued and interest accrued at the respective balance sheet dates has been included with contracts receivable.

NOTE 4—Net assets of insurance subsidiaries:

	Dec. 31, 1963	June 30, 1964
Assets:		
Cash	$ 719,377	$ 736,386
Amounts due from insurance agents and re-insurance companies	560,625	807,696
Investments, at cost plus accrued interest (market 1963—$1,607,900; 1964—$2,015,703)	1,635,054	2,040,306
Land, buildings and equipment held for sale, at cost less accumulated depreciation (1963—$60,376; 1964—$65,756) which is not more than estimated market value	410,460	387,522
Leasehold improvements, at cost less accumulated amortization (1963—$2,775; 1964—$6,685)	9,770	26,208
Prepaid expenses and miscellaneous assets	10,107	16,577
Total assets	3,345,393	4,014,695
Liabilities:		
Provision for outstanding insurance claims	659,906	843,491
Unearned premiums	584,025	916,743
Accounts payable (including taxes)	160,432	236,152
Total liabilities	1,404,363	1,996,386
Net assets	$1,941,030	$2,018,309

Unearned premiums of insurance subsidiaries are computed approximately in proportion to the unexpired terms of insurance policies in force.

NOTE 5—Deferred expenses:

The companies follow the practice of deferring commissions, discounts, legal and other expenses incurred in connection with the issue of notes payable and preference shares. Each such expenditure is amortized and charged against operations over the sixty months following the date on which it is incurred. In accordance with this practice, there has been deferred at December 31, 1963 a net amount of $337,386 and at June 30, 1964 a net amount of $468,072 representing the unamortized portion of financing expenses less the estimated reduction in income taxes arising from the claiming of allowable portions of such amounts for tax purposes.

The Company's small loan subsidiary follows the practice of deferring a portion of the operating expenses incurred by each new branch during its development period which is considered to be the first twelve months of operation. The amount deferred for each office is limited to $10,000 and is charged against operations during the thirty-six months following completion of the development period. As a result of this practice, there has been deferred at December 31, 1963 a net amount of $245,560 and at June 30, 1964 a net amount of $261,699 representing the unamortized portion of deferred branch expenses less the estimated reduction in income taxes arising from the claiming of such amounts for tax purposes.

NOTE 6—Notes and debentures payable:

Details as to the notes and debentures payable are set forth under "Certain Financial and Accounting Information—Debt and Capitalization of Delta".

Notes and debentures payable are summarized as follows:

	Dec. 31, 1963	June 30, 1964 Total	June 30, 1964 Due within one year
Senior notes—Short term series	$ 76,268,500	$103,680,925	$103,680,925
Senior term notes—5½% to 6½% maturing annually to March 1, 1975	37,148,000	35,664,000	2,834,000
	113,416,500	139,344,925	106,514,925
Subordinated notes—5½% to 6½% maturing annually to June 1, 1978	10,298,750	14,898,750	250,000
Junior subordinated notes—6% to 6¾% maturing annually to June 1, 1978	7,383,750	10,183,750	205,000
Sinking fund debentures—5½% due March 1, 1968	156,325	150,775	—
	$131,255,325	$164,578,200	$106,969,925

Of the notes and debentures payable at June 30, 1964, $128,629,000 were payable in United States funds and $35,949,200 were payable in Canadian funds.

Instalments on notes and debentures due in 1965 aggregate $5,289,000, in 1966—$5,295,250, in 1967—$6,195,250 and in 1968—$6,035,525.

NOTE 7—Preference shares:

Terms and conditions of the various series of the Company's preference shares are summarized under "Certain Financial and Accounting Information—Debt and Capitalization of Delta".

Authorized, less redeemed, first preference shares were 144,200 at December 31, 1963 and 115,800 at June 30, 1964. Authorized second preference shares were 100,000 at both dates.

Preference shares outstanding are summarized as follows:

	December 31, 1963 Shares	December 31, 1963 Amount	June 30, 1964 Shares	June 30, 1964 Amount
First preference:				
Series A	13,200	$ 1,221,000	13,200	$ 1,221,000
Series B	11,500	1,063,750	11,500	1,063,750
Series C	28,400	2,627,000		—
Series D		—	50,000	4,625,000
Second preference:				
Series A	50,000	4,625,000	50,000	4,625,000
Series B	50,000	4,625,000	50,000	4,625,000
	153,100	$14,161,750	174,700	$16,159,750

Fixed minimum annual sinking fund requirements for the five years subsequent to December 31, 1963 are not material.

NOTE 8—Common shares and stock options:

At June 30, 1964 common shares were reserved for issuance as follows:

For issuance under conversion privileges attached to second preference shares:	
Series A	375,000
Series B	250,000
For issuance against outstanding stock purchase warrants:	
(i) exercisable at any time up to August 1, 1967 at $4.06 per share (issued to purchaser of subordinated note)	46,163
(ii) exercisable at any time up to June 30, 1969 at $9.87 per share (issued to purchaser of first preference shares Series B)	34,500
For issuance under options held by employees	83,950
	789,613

At June 30, 1964, 83,950 common shares were reserved for issuance to employees under outstanding options granted by the Board of Directors, of which options on 47,450 shares were exercisable as of that date.

Year granted	Number of shares	Option price Per share	Option price Total
1961	23,250	$ 9.87	$229,478
1962	7,200	9.87	71,064
1963	17,000	11.10–14.15	213,082
1964	36,500	17.48	638,020
	83,950		$1,151,644

Options which became exercisable and those exercised during the three years and six months ended June 30, 1964 are tabulated below:

	Number of shares	Option price Per share	Option price Total
Years became exercisable:			
1961	4,500	$7.90	$ 35,550
1962	13,703	7.48 to 9.99	125,998
1963	17,885	7.40 to 11.10	149,500
1964	56,005	7.40 to 14.15	595,117
Years exercised:			
1961	6,188	$7.90	$ 48,885
1962	6,375	7.48 to 9.99	55,203
1963	21,150	7.40 to 9.87	192,955
1964	11,637	7.40 to 14.15	112,277

Prior to the listing of the Company's shares on the Toronto Stock Exchange in November 1963 no established market existed and the fair market value per share on dates prior thereto is not readily ascertainable. The per share and total fair market values in 1964 were; at the date of grant $16.77 and $611,946; at the dates on which options became exercisable—$15.15 to $15.73 and $871,072; at the dates on which options were exercised—$15.03 to $20.81 and $225,160.

The number of shares and option prices set forth above have been adjusted retroactively for the issuance of 2 shares of Delta common for 1 in 1959 and 3 shares for 2 in 1963.

When options are exercised the proceeds are credited to the common share account. No charges are made against income in accounting for the options.

NOTE 9—Restrictions on payment of dividends:

See "History and Business of Delta—Common Shares" for restrictions on payment of cash dividends on common shares.

NOTE 10—Pensions:

The Company has had in effect since January 1, 1960 an insured contributory pension plan. No recognition is given in the plan to past services rendered by employees prior to its inception. The Company's share of the annual cost of this plan was not significant during the period.

NOTE 11—Supplementary profit and loss information:

The following amounts have been charged to operating expense:

	Taxes other than income taxes *	Rents	Depreciation and amortization	Maintenance and repairs
1961	$ 42,533	$373,819	$ 37,035	$ 13,835
1962	48,201	472,384	49,240	20,946
1963	131,749	731,016	124,530	20,723
Six months ended June 30, 1964	88,551	445,514	121,353	19,252

* Principally municipal business taxes.

The Company leases substantially all of its office and operating equipment. Annual rentals under leases expiring after three years are not significant. No management or service contract fees or royalties have been paid.

FUNDED DEBT

Reference is made to page 12 of the attached Prospectus.

OPTIONS, ETC.

There are no options, underwritings, sale agreements, or other contracts or agreements of a like nature which are outstanding with respect to any unissued or treasury shares of Avco, other than employee stock options granted pursuant to Avco's Stock Option Plan. Reference is made to pages 26 - 28 of the attached Prospectus for information concerning this plan.

STOCK EXCHANGE LISTINGS

Avco's Common Stock has been listed on the New York Stock Exchange since August 15, 1929, and it is also listed on the Midwest Stock Exchange.

FISCAL YEAR

As mentioned above, Avco's fiscal year ends on November 30 in each year.

ANNUAL MEETING

The annual meeting of Avco's stockholders is held at its office in Wilmington, Delaware, or at such other place within or without the State of Delaware as its Board of Directors may determine. The date of such meeting is the second Thursday in April in each year, if not a legal holiday, and if a legal holiday then on the next secular date following. The last annual meeting was held on April 9, 1964.

HEAD OFFICE

Avco's head office is located at 750 Third Avenue, New York, New York.

TRANSFER AGENTS

The transfer agents of Avco are as follows:

Schroder Trust Company
57 Broadway
New York, New York

The First National Bank of Chicago
333 South Clark Street
Chicago, Illinois

Bank of America National
Trust and Savings Association
San Francisco, California

Crown Trust Company
302 Bay Street
Toronto, Ontario

Certificates representing shares of Avco's Common Stock are transferable at any of the foregoing locations.

TRANSFER FEE

No fee is charged for the transfer of shares of Avco's Common Stock, other than governmental stock transfer taxes.

REGISTRARS

The registrars of Avco are as follows:

Bankers Trust Company
16 Wall Street
New York, New York

Harris Trust and Savings Bank
111 West Monroe Street
Chicago, Illinois

Wells Fargo Bank
464 California Street
San Francisco, California

The Canada Trust Company
110 Yonge Street
Toronto, Ontario

AUDITORS

Arthur Young & Company, certified public accountants, of 165 Broadway, New York, New York, act as Avco's auditors.

OFFICERS AND DIRECTORS

Reference is made to page 24 of the attached Prospectus.

CERTIFICATE

Pursuant to a resolution duly passed by the Executive Committee of its Board of Directors, the applicant company hereby applies for listing the above-mentioned securities on The Toronto Stock Exchange, and the undersigned officers hereby certify that the statements and representations made in this application and in the documents submitted in support thereof are true and correct.

AVCO CORPORATION
By: "M. A. McLAUGHLIN"
Vice-President.

Seal

By: "G. M. TUTTLE"
Secretary.

FUNDED DEBT

Reference is made to page 12 of the attached Prospectus.

OPTIONS, ETC.

There are no options, underwritings, sale agreements, or other contracts or agreements of a like nature which are outstanding with respect to any unissued or treasury shares of Avco, other than employee stock options granted pursuant to Avco's Stock Option Plan. Reference is made to pages 26 - 28 of the attached Prospectus for information concerning the plan.

STOCK EXCHANGE LISTINGS

Avco's Common Stock has been listed on the New York Stock Exchange since August 19, 1929, and it is also listed on the Midwest Stock Exchange.

FISCAL YEAR

As mentioned above, Avco's fiscal year ends on November 30 in each year.

ANNUAL MEETING

The annual meeting of Avco's stockholders is held at its office in Wilmington, Delaware, or at such other place within or without the State of Delaware as its Board of Directors may determine. The date of such meeting is the second Thursday in April in each year, if not a legal holiday, and if a legal holiday, then on the next secular date following. The last annual meeting was held on April 9, 1964.

HEAD OFFICE

Avco's head office is located at 750 Third Avenue, New York, New York.

TRANSFER AGENTS

The transfer agents of Avco are as follows:

Schroder Trust Company 57 Broadway New York, New York	Bank of America National Trust and Savings Association San Francisco, California
The First National Bank of Chicago 232 South Clark Street Chicago, Illinois	Crown Trust Company 302 Bay Street Toronto, Ontario

Certificates representing shares of Avco's Common Stock are transferable at any of the foregoing locations.

TRANSFER FEE

No fee is charged for the transfer of shares of Avco's Common Stock, other than governmental stock transfer taxes.

REGISTRARS

The registrars of Avco are as follows:

Bankers Trust Company 16 Wall Street New York, New York	Wells Fargo Bank 464 California Street San Francisco, California
Harris Trust and Savings Bank 111 West Monroe Street Chicago, Illinois	The Canada Trust Company 110 Yonge Street Toronto, Ontario

AUDITORS

Arthur Young & Company, certified public accountants, of 165 Broadway, New York, New York, act as Avco's auditors.

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AVCO CORPORATION

By: [illegible]
Vice President.

By: [illegible]
Secretary.